FINANCIALISM

WATER FROM AN EMPTY WELL

How The Financial System Drains The Economy

BOLA AHMED TINUBU

BRIAN BROWNE

Forewords WOLE SOYINKA *and* REVEREND JESSE JACKSON

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PUBLISHED IN MARYLAND, USA
BY PINNACLE PUBLICATIONS, INC.
301-613-4577
301-925-9318 (fax)
pinnaclebooks@yahoo.com

Tinubu, Bola Ahmed
Browne, Brian
Financialism : Water from an Empty Well
ISBN: 0-9702856-6-3 (hard cover)
ISBN: 0-9702856-7-1 (soft cover)

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Cover Design by Sanya Ojikutu

Printed in the USA
Signature Book Printing
www.sbpbooks.com

Dedications

Bola Ahmed Tinubu

To my wife, Senator Oluremi Tinubu and children for putting up with my long hours and busy schedule. To the entire leadership of my party, the Action Congress of Nigeria and members of my Executive Council for the years I served as governor of Lagos State. Most of all, to the toiling masses of Nigeria who have suffered daily deprivation as they struggle to fetch water from a dry well.

Brian Browne

I dedicate my contributions to this book to the memory of Walter Rodney, whose *"How Europe Underdeveloped Africa"* stands as one of the most important contributions to our understanding of the modern political economy, and to Dudley Thompson who dedicated his life in pursuit of freedom for the Black race. My contribution to this effort are also dedicated to Robert Nesta Marley and Gil Scott-Heron whose music uplifted my consciousness as a teenager and helped place me on the path I now tread. Most of all, I dedicate this work to those slaves who endured that one day I might live, and I dedicate it to those branches of the family tree yet to come. May they always grow in the light of prosperity and liberty.

Authors' Note

As you read, you will find words such as "neighbor/neighbour" and "labor/labour" used in different sections of the book. We did this to maintain the full integrity of each writer's contribution as one author often uses British spelling and the other uses American spelling. Use of both modes of spelling symbolizes the convergence of two similar yet distinct perspectives into one unified work. We hope it provides a touch of color/colour to the book. Stated differently, this is a way to add a dash of heterodox style to a book of heterodox substance.

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Acknowledgements

Bola Ahmed Tinubu

The book you hold in your hands is a product of spontaneous, yet intellectual conversations, with many of my friends, colleagues, and persons from the corporate world with whom I have worked closely. Though we do not necessarily hold the same positions on the issues addressed in this book, we share a common bond in our crushing desire to see Nigeria overcome its economic challenges.

This simultaneous clash of ideas inspired me to pen this book. Writing a book of this magnitude with its core areas of finance, economics, and the attendant political undercurrents would not have been possible without collaboration and support.

The long hours of discussions about Nigeria that I held with my friend Brian Browne, former U.S. consul general who would come to coauthor this book, served as a catalyst. We analyzed the similarities of our different worlds—American and Nigerian—and hit on the idea to collaborate on this book.

I thank Wale Edun, Femi Hamzat, and Yemi Cardoso, whose thoughts on the future of our economy sharpened my own thoughts. Their inspirational instincts propelled me to document this book. They are financial experts and economic thinkers of no mean stature. The speakers at the Bola Tinubu Third Colloquium also discussed great ideas that stimulated my thinking and fed into the writing of this book. In particular, I must mention Opeyemi Agbaje and Leke Alder for their unusual insights.

Professor Osinbajo's name needs to be mentioned. Even though he is a lawyer, a Senior Advocate of Nigeria (SAN), his concern for

the welfare of our people and the refreshing views he brings to our debates and arguments formed vital elements of this book. By virtue of his depth of knowledge and commitment to justice in all its forms, Femi Falana, (SAN) contributed significantly to this.

Ogbeni Aregbesola's highly inquisitive mind and provocative questions on why certain things are the way they are and why they cannot be different challenged my mind to no end. On this count, Wale Tinubu's constructive, confrontational demand, at all times, that the political class and policy thinkers should interrogate the issues of Nigeria's political economy and articulate workable solutions was a much needed trigger that propelled me to articulate my views on paper.

Welded to this were Babatunde Raji Fashola's relentless poundings, challenging me not to stop at just robust debate and analysis but to proceed to put into writing my understanding of the political economy. Several of my cabinet members who served Lagos State in different capacities also influenced and encouraged me to write this book. I thank you.

A most profound gratitude to my friend Howard Jeter, former American ambassador to Nigeria, whose commitment to solving the problems that keep Nigeria from reaching her potential as Africa's leading nation is unwavering and tireless.

Even from the media came a torrent of inspiration and useful conversations that made this book possible. Simon Kolawole, editor of *Thisday*, never stopped probing and suggesting scenarios that conjured new lines of thinking. The thought process for this book also benefitted immensely from my many stimulating conversations with *Nation* columnists, Sam Omatseye, Comrade Kayode Komolafe, and Segun Ayobolu, who tormented me with pleas to put my thoughts together in a book from which many would benefit.

Jim Ovia, former managing director of Zenith Bank, is a foremost economic thinker—a reservoir of knowledge with a versatile mind. The depth of our friendly debates was invaluable to the composition

of this book. He joins the many culprits who would not let me rest until my thoughts were put on paper.

I extend thanks to my friend and brother, Senator Abu Ibrahim, whose understanding of financial issues and views on how our national resources can be used to meet our challenges is amazing. He is a true comrade in arms. Professors Segun Gbadegesin and Ropo Sekoni, two intellectual giants of our time, willingly shared their wealth of knowledge to help sharpen the thoughts that would emerge in this book. I thank Moroof Oseni for his resourcefulness and quick mind. I must mention Sunday Dare and Dr. Benson Akintola, whose resourcefulness and dedication in the production of this book is on record. For the many others who I might have inadvertently omitted, let me express my profound appreciation to you all.

Acknowledgements

Brian Browne

It seems that we live in a world largely determined by the acts of the sanctimonious, on one hand, and the ungodly on the other. Hoping and praying that I am neither, I must thank God for giving me the idealism to write this book. Along this same line, I also would like to thank my earthly parents and entire family for their support and encouragement, convincing me that I was capable of this endeavor.

I owe a debt of gratitude to my coauthor and friend. It was from our ad-hoc conversations about economic development that the idea of this book was born. I thank all of those who labor to pull the veil from the eyes of the public and to teach the people the truth about the economic games played against them. Instead of pointing to the injustice of it all, these writers and thinkers could have joined the crooked game. They would all be more affluent and powerful (and jaundiced) than they are now. These modern intellectual pioneers operate more in the spirit of freedom and justice than do the flag-waving false patriots of the right and of the left. To the faculty at the Center for Full Employment and Price Stability at the University of Missouri-Kansas City, as well as people like Yves Smith, Edward Harrison, and Cullen Roche, I say thank you. Their works convinced me that I was not insane, but was, as usual, a member of an underdog minority that comes closer to understanding the political economy than does a rich and grasping elite. Their works confirmed and helped refine my conceptual thinking and gave me the added confidence to fully express those thoughts that clashed with economic orthodoxy. Special appreciation goes to Marriner Eccles, the Utah banker who emerged as one of the unsung heroes of the Great Depression, for his excellent contributions to our

understanding of the importance of aggregate demand in maintaining a prosperous and just political economy.

I turn toward history to say thank you to Martin Luther King jr., Malcolm X, A. Philip Randolph, W. E. B. DuBois, and Harold Cruse. These great men explained to us that the political economy does not operate by a set of rational and neutral rules, but is a subjective entity that can be fashioned to promote bias or justice, broad growth or gaping poverty, depending on the values of its chief architects. They also plied the way for Black people to contribute to the theory and policy discourse on all matters of the political economy.

I thank my close friends who are more like brothers: Ken, Moses, Saleh, Jonathan, and my pastors. All of them have encouraged this work when they did not have to.

Those who invested their time and labor to put this book together, such as our editor and publisher, did a remarkable job in a brief time. I thank my sister Valerie and brother Don for suffering through some of the rough drafts of the initial chapters that I wrote. Here, I would like to say a special thanks to "Nile Justice," Ms. Pamela White. Her contributions revealed her extraordinary concern for humanity and her dislike for injustice of all forms. She was involved with the book from its early beginnings. She read every page (many pages she suffered several times over). Her comments and questions were invaluable in shaping the book to be more readable and, hopefully, enriching. Without her help, my contribution to this book would have been an inferior product. Nile Justice, I owe you a debt that cannot be repaid. Thank you.

Foreword

Wole Soyinka

I am a storyteller, not an economist. That I have exceptionally consented to write the foreword to a work on economic matters can only be because I find that I do have a pertinent story that happens to touch economic learning. So, here goes.

First, let it be clearly stated that I am not in the least embarrassed or ashamed to acknowledge myself an economic illiterate. This is quite unlike a former head of state who, thus dubbed, never forgave his perceptive analyst, even after his death. That economist was my late friend, Professor Ojetunji Aboyade, the only "specialist" from whom I received any insightful—though mostly sporadic—bouts of induction into the field of economics. That means I distrusted him absolutely. I distrusted all economists and still do. I listened avidly to Oje's theories and acknowledged a "method in his madness," but my attitude toward economics and economic pundits remains, as it has always been from birth, highly distrustful. In short, I learnt nothing.

There are perhaps some sound, psychological reasons for this. As formally acknowledged—see relevant portions of *IBADAN: The Penkelemes Years* and *ISARA*—I grew up in an atmosphere of intellectual encounters (mid-level) and trade (low intensity). My father represented the former, my mother the latter. From time to time, I minded her shop during her absences, but was more interested in reorganising the goods display in her shop along my own aesthetic ideas than in attending to sales and goods promotion. With encouragement from my father, she later ventured into more and more ambitious business interests than mere *wosi-wosi*—the

stuff of petty trading—including, I remember, investing in the taxi business and timber.

It made no difference. Each business endeavour ended in collapse. I think some of the beatings I received as a child were delayed reactions to my outspoken views, expressed well in advance of setbacks, that she did not strike me as a businessperson. I simply *knew* it. Nothing to do with complicated financial matters, fluctuating commodity prices, demands, etc. I just knew the family had no business instinct. As each venture collapsed, even though I had learnt not to say "I told you so," I think my body language was too eloquent for comfort, especially as I never learnt not to enquire—in all innocence—after some suddenly vanished commercial activity or the other. You know, remarks like "By the way, what happened to....?"

My formal/informal introduction into "financialism"—as I then understood it—would wait until I was already into academia and creative writing. I was also editing the journal *TRANSITION*, having taken over from its founder and editor, Rajat Neogy, who had repatriated into Ghana, where I was then exiled. Ghana was suffering its infamous economic crunch under the military dictator Acheampong. The situation was so bad that the staple food, *kenke*, had begun to draw satiric headlines as "the shrinking *kenke*," while the evening roadside fires that signaled the dispensing of *kelewele*, fried plantain, fizzled out for lack of raw plantains. All were rotting away on farms since transportation had broken down for lack of vehicle spare parts. In the midst of this disaster, the chairman of Ghana's central bank was compelled to shell out foreign currency on demand for Acheampong. In desperation, hoping perhaps that I might use it in *TRANSITION*, the bank chairman once sent me a scrap of paper on which Acheampong had written in green ink "send through bearer XXX US dollars"—I forget the exact figure now. It was a document whose loss through later circumstances I deeply mourn.

The shops were bare, refrigerated display cases filled with coconuts (still in their fibre casing!) and the occasional mango. Market stalls were reduced to a few wilted vegetables, isolated tubers, and tiny piles of grain, with the imperishable *paposito* (hot roundish peppers) dominating the trays where substantive, body sustaining staple foodstuffs used to overflow. To obtain what were then known as *"essenco"*—essentials—we drove to Lome (Togo) on payday and shopped. I was one of the lucky ones paid in foreign currency through my editorial position on *TRANSITION*. Together with my expatriate colleague from Trinidad, I would drive straight to the Ghana-Togo Bank (does it still exist?) armed with letters of introduction from the University, since—I would later discover—only such accredited banks were authorized to deal in foreign exchange. So, to the bank we went with our dollar cheques, cashed them, then changed the dollars into CFA, shopped for *essenco* (to be shared with our colleagues), lunched sumptuously, and returned to Accra to live like mini-tycoons.

A kink in that routine came quite fortuitously. Normally, on arrival at the bank headquarters, we were ushered into the office of the bank manager, where our transactions were carried out with minimum fuss. One day, however, we took off earlier than usual from Accra and so virtually opened the bank with the employees. We were received, as usual, like royalty, but then the manager proceeded to keep us waiting, albeit plied with coffee and snacks. Ten minutes, going fifteen, then thirty.... Finally, I asked him what the matter was. Quite unflappably, he said, "Oh, I thought you knew. You came in too early. Our officers have yet to return from the Ogbomosho people."

Ogbomosho people? The explanation came like a bolt, shattering months of ignorance. Apparently, every morning, before the Foreign Exchange section of the bank opened to the public, the bank first sent its finance officers to the Ogbomosho migrants—in markets, motor parks, odd hotels, etc.—to find out what the going rate was for the various currencies. Only after that early morning exercise did the

bank post the formal exchange rates for CFA, pounds sterling, deutschmarks, US dollars, and, of course, African currencies.

That morning, I changed just a token amount, and hoarded the rest. Straight from the bank, we headed for the Ogbomosho "financial sector." Easily enough, we located their offices, which were not offices at all, but local market stalls and/or benches in the open-air under the shades of trees. After some careful scouting, investigating, and comparison of rates, we settled on a gangly *omo iya*, and proceeded to change our dollars on much better terms than we had ever received from Ghana-Togo. However, after having celebrated our savings with even greater consumption than usual, I insisted on returning to our newfound banker.

That was how my real education began. I plied him with questions. He was a patient teacher and took me through the processes that determined the rates of exchange and their fluctuations from one day to the next: civil war in the home of a commodity, such as cocoa or kola nut; coups; a failed harvest; excess borrowing by one West African government or the next; border closures; and declines in exports. Even changes in interest rates in European capitals were factored into the Ogbomosho forex decisions in Togo! It was an arcane world, but profoundly instructive. For once, I understood why a formal, white-collar, "expatriate" bank like the Ghana-Togo depended on the lolling, casual, "unlettered" Ogbomosho expatriate! From then on, he became my official banker.

I should mention that, on narrating our new mode of transactions, I was informed that it was illegal. My reaction was quite straightforward: both Acheampong (of Ghana) and Eyedema (of Togo) could go jump in bubbling *kenke* pap! I was willing to stand trial in any court over my right to change my hard-earned salary anywhere that offered me the best bargain. I saw no reason why, for the privilege of sipping coffee in the air-conditioned office of the bank manager, I should be skinned so blatantly, and for so long.

It can be claimed, however, that my tutelage was not completed until two years ago when the world's financial oracle, the anti-regulation guru, Alan Greenspan, came on world television to admit that he had wrongly forecast the world's banking system, which had finally cracked. "I was wrong," he admitted, "I underestimated a certain factor called 'greed.'" This was a man considered so indispensable that he served both Republicans and Democrats. When I watched him speak, I must confess I was humanely concerned in case he imbibe, along the way, the ancient Japanese way of making amends. Realising that he had overseen the disemboweling of a supposedly impregnable financial system, it seemed quite possible that he might choose to follow suit. But no, I needn't have wasted my empathy. No *sepukku* rites of atonement were about to follow. He was back in no time at all, confidently pontificating as usual—still is, to the best of my knowledge.

This book does more than illuminate the validity of Ogbomosho financial intelligence based on the rational grounding of paper money on material production, capacities and conditions, and the transmission of goods—which is surely the origin of commodity exchange between producer and consumer. It challenges the domination of print value over the material goods, a situation where the "virtual" or symbolic arbiter between commodities comes to take precedence and becomes not only valued and marketable for itself, but also tyrannizes over the enabling material base. The skewed world of economics needs to be challenged, a world where the umbilical cord between produce and tally card was slashed when no one was looking. The latter has come to be a thing in itself, empowering a parasitic class of finance controllers who place the mere tally over and above the material goods, yet succeed in making the rest of the world fall in line! The collapse of the dominating economies of Europe and America is a call for rethinking orthodox assumptions and givens under which satellite economies in a distant continent, like ours, have taken a severe beating.

The gurus have failed; their system is in shambles. Does the foregoing emit a touch of the "I told you so," which I dared not utter in childhood? Yes, indeed. We always knew that, sooner or later, the self-cognizing economic illiterates of the world would be vindicated.

Foreword

Reverend Jesse Jackson

Today's world is flush with information, but true knowledge and understanding remain among the rarest commodities. We live at a time when many books are written that service no purpose other than to sate the author's pride. These books neither advance our understanding of ourselves nor provide insight as to how we should progress. Conversely, there are books that enlighten us and, thus, advance humanity by revealing a better way to order and organize our collective existence. There are also books that entertain in such a manner that they fortify our spirit, enabling us to persevere through those problems we cannot yet solve. Periodically, a book comes along that serves both these laudable purposes. *Financialism: Water from an Empty Well* is such a book.

The principal threat facing Black Africa, Black America, and Black people everywhere is the ruthless mortar and pestle of poverty. Our nations and communities lie supine and weak, made wretched by want and underdevelopment. Yet, we have not adequately taken up the task to educate ourselves about economics. By and large, Black people know we do not have enough economic power, but know precious little economic history and theory. However, if you do not understand how the economy works, how can you hope to change your status from being its victim to being one of its leaders? Most of our people's economic knowledge boils down to hearsay and informational tidbits acquired at random, mostly gleaned from the omnipresent television and occasionally the radio. We yearn for something new yet remain chained to economic myths and policies of old.

Financialism serves an important purpose because it provides the people with a clear understanding of alternative, more just economic principles than the ones that currently rule. The book reveals a profound fact: the dominant economic theory is more subjective than it is scientific. On the scale of scientific objectivity, it lies somewhere between the reading of tea leaves and the 19th-century elitist pseudoscience of craniology. Yet, we have been hoodwinked into seeing these old economic fairy tales, such as the perfection of the financial markets and the need for government deregulation of the economy, as inviolate truths. We have been had, our pockets picked clean by a game played with a stacked deck. This book does great service by exposing the flaws in the myths and asking us to explore novel concepts that will result in a fairer, more productive political economy. After you read this book, you will no longer think of the "free market" and government's role in the economy the same way. You will have a better understanding of our monetary system and how it can be more wisely used to reduce poverty and bring meaningful employment to many, including the poor, in our society.

This book is important because it reflects the thinking of two men who care deeply about Black people and all of humankind. This work is a manifestation of the 21st-century's version of enlightened Pan-Africanism. The 2008 financial meltdown undermined Black people just as it did the rest of humankind. Yet, few Black thinkers dared present an original perspective on the crisis and what it meant for the future. It is as if economic theory and history are restricted areas for Black minds, innovative thinking, and intellectual discourse. Too many of us in the leadership and policy mainstream in Africa and the Diaspora have simply waited to be told what to think and then echoed these borrowed themes and ideas with sufficient rigor of analysis.

This self-imposed intellectual apartheid must end. These two authors are not of that handcuffed mainstream. They have thought and explored for themselves, and have, thus, done a service for all of

us. In the process, they have produced a book of originality and wit. The book has its imperfections, as do all treatises dealing with the so-called "dismal science." One may not agree with it on every matter, but, in substance, the book is a mind-opening exploration providing a unique perspective that perhaps only the African mind can lend. It will encourage more of us to use our minds creatively and to question the economic status quo. This can only be a good thing.

This book not only delves into the proximate causes of the financial meltdown, it provides a readable, yet intelligent, summary of the economic history and evolution of thought that has brought about the transformation of capitalism into what the authors call its more ruthless progeny, "financialism." The authors warn that if we allow financialism to continue to hold sway, our world will be one of frequent crises and galloping inequality. The current upheaval in the Eurozone is evidence of their prescience. Theirs is a warning that must be heard and acted upon if African nations and Black people the world over are to exit the gravitational pull of chronic poverty.

The authors are not satisfied with analyzing the problem. They have taken on the task of offering practical, if at times, radical solutions to what ails the political economies of America and Nigeria. They are humble enough to know their prescriptions are not panacean. Yet, this book is a huge step in a corrective direction, for it offers important policy insights. Ideas, such as the creation of a national industrial policy and the reform of government borrowing practices, would create greater fiscal policy latitude so governments, particularly those in Africa, would be able to focus more on genuine development, while steering their economies away from heady, yet dangerous, levels of financial speculation.

Lastly, the book is a well-written adventure. Its journey through the peaks and dales of economic theory and history, punctuated with literary vignettes that illustrate key points. These vignettes are laced with an irony that shows the authors understand human nature in

ways that seem to elude mainstream economists. These literary illustrations represent a novel approach to explaining economics to the lay audience. They demonstrate the creative impulse of the authors. Moreover, they make for an excellent, engaging read.

Those who read this book will be educated in part, entertained in part, and enlightened in whole. They will be better equipped to turn the tide against the inequality and rolling poverty that now sweep the political economy. One cannot ask more of these authors. I applaud them for the important contribution they have made, and I ask you to read this book with care and understanding. You will be much the better for the effort.

Preface

A Parable: The Plant

There is but one immutable truth. It is found in the mystery of the preceding sentence.

In a place that is no longer and in a time far removed, lived a tribe of farmers. Like agriculturalists everywhere, they diligently tilled and tended their fields as if their lives depended on it. Their lives did. The ravages of nature, be it opportunistic fowl or foul weather, could decimate a crop, turning a once promising harvest into a courier of starvation and death. The risk of a scant harvest and its dreaded brother, famine, was an omnipresent force in their lives. Then a miracle came.

A strange plant appeared in the field of one of the tribe's best farmers. Thinking it a weed, he quickly plucked the weird growth from the crop he had sown. He tossed it aside and began investigating the field for more intruders so that he might set them afire in one strike. A neighbor watched this. More curious than the weed's discoverer, this neighbor examined the discarded plant, placing an incipient blossom from the plant to his mouth. Its savor was like nothing he had experienced. Compared to this, the crops to which they devoted so much time tasted like the dung of a dyspeptic ox. If one could fall in love with a plant, it would be this. He sampled a leaf; it was just as good. He bit the edge of the root. It tasted of the sweet of sweetness.

Instead of telling his friend how fine the intruder tasted, the neighbor kindly offered to help pull more weeds and to discard them

with any he might find in his fields. He left for his house with three more plants. He scoured his own ground but, to his chagrin, found none of the tasty new arrivals.

He prepared the ground for the plants inveigled from his friend, planted them, then watched carefully day and night. He need not have. He soon discovered the plant was as hardy as it was delectable. It soon took over his fields. When he bartered some to his friends, they too became so enamored that they gave him large amounts of their regular crop for a small quantity of the new plant.

He amassed large amounts of traditional crops, but neither ate the produce nor planted their seeds. He left them to spoil. It did not matter, he thought. Because the new plant grew bountifully, the threat of hunger no longer compelled him to till the ground or bend his back in hard labor.

Soon, all, except for the discoverer, abandoned their traditional crops to plant the new one. Things seemed well. Everyone now prospered without working. They could luxuriate as never before. They began to detest the rigor of traditional farming and the unrelenting discipline that went with it.

As they became untethered from the risks of farming and grew smug in the relaxed prosperity of ample food stocks, the people reached the stage where their appetites for the crop increased the more they ate of it. People began to borrow plants from others, promising to repay the next day or so. Imperceptibly, they reached the point where they were devouring the new plant more rapidly than it replenished itself. Before they understood what was happening, calamity struck. A day came when few could eat as they wanted. Many people had devoured all the plants in their fields. Those who still had plants quickly started pulling them to hoard from their now beggarly neighbors. Those who had previously lent went chasing after those who had borrowed. However, they were not to be found because they had already gone chasing those who had

borrowed from them. A place once laden with crops and food had turned barren and destitute of food without its inhabitants understanding the approaching danger.

The original discoverer, discounting the new plant as a killer weed, was the only person who had not fallen into despair. He had stayed faithful to the old crops and his zest for labor had not diminished. His fields were plentiful, and his storehouse teemed with the product of toil. His fellows came to him for relief. He had enough for some but not all. The people knew this. The scared, hungry rabble overran the man's finely tilled fields, pulling what they could. They ransacked his storehouse so not a grain was left for even the resident mice.

They had exhausted the supply of food; there were no crops or seeds on which to lay hope. Winds came and blew the unemployed topsoil from its home. Like the rich dirt, the people too scattered to the four winds in search of a new home. A once fecund place had become no-man's land, uninhabited barrenness. A once thriving tribe ceased to exist, but not because of war or pestilence. Human folly has erased from human memory the names of the tribe and their wasted land; both are artifacts lost to the past. Yet, their lesson speaks across the ages to warn every generation: anything that deceives a people into believing they need not work to prosper is a most dangerous weed that will ultimately choke the life from those it entices.

Introduction: We Are All Economists Now

> Some erected castles in the clouds, while others built palaces in the swamp. Except for the distinction that one may crash while the other sinks, both shall fall, leaving nothing in their wake but waste and folly.

This book is not about politics nor is it about economics. It is about the confluence where politics and economics meld to become each the other. It is about the political economy. Moreover, it examines the convergence of corrosive politics and the economic black arts. It is about complex thought and about behavior and fact of even greater complexity. It is as much about the inhumane behavior of facts as it is about the facts of human behavior. It is about how thought can go awry. Yet the more an idea goes awry, the more it and its adherents insist on its validity. This gives an account of that class of people who make and multiply money for the sake of it. It points out those who have staked the well-being of the greater portion of us on unnecessary wagers placed with the whimsical gods of high finance. In the end, this book is for those who seek to build a political economy based on an equitable creation of wealth so that all may have a better run at a better future.

If the world were as it ought to be, this book would never have been written. Alternatively, if it had to be written, it should not have been by this tandem. Yet, we assumed this task because others did not. We are not economists or academicians. Given the failure of classical macroeconomic theory to presage the financial crisis and to prescribe how to mitigate the fall, our modest credentials may be more blessing than curse. Moreover, our professional lives have turned us into observant practitioners and analysts of economic

policy. This qualifies us to take this journey as much as any other credentials one could offer. Thus, we offer our Pan-African perspective on the world as it is and as we think it should be.

One an African, the other an African American. Two brothers. Over the years, we came to a meeting of the minds regarding the compound imbalances of the global economy and the best pathway to development for Black people. When the 2008 financial crisis struck, we discussed its origins and ramifications at length. We feared its impact on the scratch-poor nations of Africa and the already distressed Black community in America. Although many financial experts initially downplayed the effect the crisis would have in Nigeria, we saw it as a hungry nemesis turning the corner to turn soon on us. An array of storm clouds gathered, yet most orthodox experts blithely predicted all would blow over, leaving Nigeria dry and unscathed. They were wrong. Their belief in modern economic orthodoxy failed them and us. Their antiquated concepts blinded them to the reality of a new moment.

Meanwhile, your two authors were strongly concerned that something more than a cyclical downturn was afoot. We worried the financial markets had taken primacy over the real economy in the United States, and that much of the rest of the world had unthinkingly embraced this tempting, yet costly, bastardization of capitalism. Without fanfare, but with strong effect, financialism had imperceptibly replaced capitalism as the leading economic model in the West. Sadly, Nigeria and other parts of Africa had also consumed this dangerous poison. In the East, China had embarked on a mercantilism laced with beggar-thy-neighbor attributes that compounded the imbalances caused by America's protracted journey through overconsumption, easy credit, and cataracts of debt. America had become apostate to its own ethic of hard work, solid savings, and low debt. It forgot that debt which comes cheaply is always the most dear to pay.

This unsettling vibration of the financial system was not the product of a stiff wind that came and went. It was the virgin jolt of an important tectonic shift, a systemic change in the global balance of economic power. In this, it was like the Long Depression of 1873, which was partially caused by protectionist America's emergence as a leading industrial and agricultural power capable of flooding established European markets with low-cost exports. Given the importance of what we saw on the horizon, we expected leading Black intellectuals to write a litany of books about what this crisis meant to Africa and the Black race.

We kept our powder dry and waited. No books came. That the stream of books did not come told us much about the lack of creativity of too many of our otherwise capable intellectuals. Many of them would rather await the work product of the usual suspects who write on economics. Too many Black scholars were satisfied to sift through, then regurgitate the writings of western economists and thinkers. Yet, the pain inflicted by financial error is inflicted on all of humankind. The quest for a benign exit should likewise be a collective endeavor. We all have been afflicted; we all should have a voice in stating the cure.

Subsequent events confirmed our fearful prognosis. The financial crisis injured Africa and Black America more than most expected. Hot money from hedge funds and quick-footed speculators (modern-day carpetbaggers on an international scale) came to Africa to take advantage of the handsome returns on equity recorded in local financial markets. When hell loosed itself on Wall Street and Canary Wharf, these investors quickly withdrew their funds from emerging markets to shore their home bases. They also feared contagion could spread to the emerging markets. The thought rattling their minds was their money might forever be lost in distant markets that possessed none of the protective mechanisms for investors of the more-developed financial markets. In the end, they moved their funds to Africa, parked the funds for a moment to reap nice profits, and then removed them upon the portent of trouble. These investors

never intended any long-term investment in Africa; they never turned off the motors to their get-away cars. The hazard of investing in Africa was closer to a free-market environment than what existed in their nations. When theory succumbed to hard reality, western investors buckled under the weight of it all. They decided to bolt and take their funds back to countries with political economies structured in such a way as to protect them and their money from their own folly.

As the second largest economy in Africa and with a rapidly expanding banking and financial sector, Nigeria stood more vulnerable to the ill winds than other African countries, save South Africa. The export-driven nature of their relatively large economies integrated these two nations into the international financial system more so than any of their sub-Saharan neighbors. Moreover, Nigeria's stock market was attractive to a number of global speculators in relation to the stock exchange's size. Nigeria suffered another fundamental problem. It was an ardent proponent of American-style financialism.

For the first 60 years of the past century, America continued a phase of industrial expansion that made it the dominant economic and military power in the world. Its might reached a zenith in the two decades after World War II. By the late 1960s, other nations were recovering from the economic costs of the war. Meanwhile, America was going through a transformation it did not fully understand. The transformation would change the structure of the American economy, and, decades later, that of the entire global economy. America became the first "post-industrial economy." America stopped emphasizing industrial prowess. Instead, it focused on intangible services and complex, almost ethereal financing. Smokestack and pig iron had given way to the office complex and financial paper.

America evolved into another phase of what purported to be capitalism but was not. The capital assets to build and manufacture

were no longer the most important things. Creating wealth by making goods faded from being the cardinal concern. President Coolidge famously stated that the business of America was business. This time, the business of America was making money. No longer would people focus on making things to make money, but they would simply focus on getting money to make more of it. No longer the measure of wealth, money became the definition of wealth itself. Banking and financial markets ascended to the top of the American business totem. Wall Street and the financial houses became the new temples of the American economy. Midway through the last quarter of the past century, financialism became the secular faith in America. It did so mostly by stealth and without proclamation. It did so claiming to be the newest evolution of dynamic, productive capitalism. However, financialism is not a form of capitalism. Financialism is an assault against it.

What America stumbled into by evolution, Nigeria rushed into by fiat. Nigeria did not evolve into a post-industrial center of financialism. It skipped over industrialization and went directly to financialism. In 2005, then governor of the Central Bank, Charles Soludo, embarked on an ambitious program to reduce the number of banks and increase the size of survivor banks. Nearly universal acclaim greeted the innovation. This reaction proved most people are always susceptible to the elegantly groomed error when it concerns money. A pipedream presented as sound economics, this artificial enlargement of banks became as messy as a clogged drain in a busy kitchen. The consolidation exercise produced glittering short-term profits. However, it was a strategic blunder of the first magnitude. The former governor does not deserve to be excoriated for believing in a pearl that turned out to be a swine. At the time, many people believed, as he did, in the rightness of his policies. He intended no harm and only wanted to benefit his nation. His mistake was that he came along at the wrong time. He employed the financialism model thinking it was in bloom. By then, it was already overripe. Thus, quick gain inevitably led to steep loss. Both the temporary gain and sustained loss were inherent in the chosen

model. Yet, even today, many people still dream of those wistful days of high profit, not realizing those speculative joys cannot be divorced from the subsequent pains of financial contraction.

Even now, after trillions of naira evaporated into the mysterious emptiness of nothing, many Nigerians stubbornly refuse to recognize the decision they hailed as bringing prosperity had consigned the nation to financial peril. However, it would be indign to demonize the actors and their decisions because things went in adverse directions they did not expect. We need to understand objectively what happened in order to prevent a sequel.

That Professor Soludo's reign coincided with the final years of Alan Greenspan's tenure at the Federal Reserve in America is appropriate. They were cut from the same mold. Greenspan's lax monetary policies and hesitance to regulate the financial sector helped create a system of perverse incentives, resulting in energetic profit mongering at the expense of all else. Greenspan opened the floodgates to speculation, and then feigned surprise when the torrents came. Nigeria's dalliance with financialism led to the creation of artificially large banks. Due to the stagnation of the real economy, there were insufficient numbers of productive endeavors where banks could preferably park their money in sound investment. Consequently, banks engaged in risky loans and sought to maintain their attractiveness by declaring huge dividends and profits that did not exist. This sparked a frenzy of investment in banks divorced from any objective measure of the banks' real financial vitality.

Bank stocks soared on margin lending, much like American banks experienced during the heady days before the Great Depression. Nigerian financialism created a domestic asset bubble related to, but independent of, the global turmoil that began in the United States in 2008. These contemporaneous crashes were caused by different investment mechanisms applied in two different economies. Yet, in mindset and timing, the Nigerian crash and the

global crash suffer a common and base denominator: the belief that the short-term accumulation of money via purely financial transactions could be the life bread of the economy. Worst for Nigeria, it would feel the compound effect of both downturns as the global tailspin exacerbated its homegrown troubles. As if breakage of the plates was not enough, its finest glassware would come crashing to the floor as well.

That the degeneration of the global financial system and the Nigerian system came from similar reasons was bleak enough. Confirming the worst fears, the financial crises ultimately spilled into the real sector. This caused a contraction. In geographic reach, this contraction touched more far-flung parts of the world than did the Great Depression. The global downturn harshly visited Africa. The growth of the continent's gross domestic product (GDP) halved in 2009 as compared to 2008. Food and energy prices increased, as did the poverty rate. More children perished from starvation in 2009 than in 2008. Aid funds from the now cash-strapped developed nations contracted by $3.5 billion. Already suffering a rasorial existence, the face of Africa's poor fell deeper into the dirt.

In relative terms, Black America was probably the most adversely affected population in the world. Thousands of Black Americans lost homes as the financial meltdown precipitated a liquidity and employment contraction. Bad times went full circle. The exhaustion in demand for home purchases precipitated a decline in real estate prices. Because speculators had leveraged too much money in the real estate market, the decline in real estate precipitated a debt crisis. As financial crisis became more apparent, illiquidity threatened many banks. They needed to limit their loan exposure to prevent this sad state from turning into insolvency. Consequently, millions of people were unable to refinance or rollover backend-loaded mortgages to delay mushrooming payments on these exotic debt instruments because the banks were no longer willing to loan money. Not only were people unable to repay or carry their mortgages, companies that employed battalions of workers

could not get loans to fund normal levels of operation, let alone increase activity. Cash-strapped companies fired workers in droves. As bad as the original wave of the foreclosure crisis was, the employment crisis that came in the backdraft was far worse. The rise in unemployment precipitated another loop in the cycle of foreclosure and broken credit, as those who lost their jobs became incapable of honoring their mortgage and other debt obligations.

Many Blacks, who were just inching into the working class, fell back into the coarse embrace of poverty. Unemployment and underemployment among Black males in many urban centers exceeded 30 percent. These statistics were redolent of the Great Depression. The recession had pushed the Black community into a new depression.

With the economic world troubled by structural uncertainty, we decided to write this book. We wanted to voice our opinion about the "hows and whys" of the financial implosion and resultant global recession. We also wanted to give full discussion to what this meant for leadership in Nigeria and America, particularly within the Black American community.

We attacked this challenge not as scholars interested in recording events. Others have chronicled them in greater detail. We looked at our role as practitioners in the political economy, seeking to clarify essential points to enable policymakers and opinion leaders in Nigeria and the Black American community to develop a finer understanding of the following issues:

1. The role of government in maintaining the safety and soundness of the financial system.

2. The role of the financial sector in allocating capital to the real sector.

3. Government's inherent obligation to regulate and moderate competition so that it does not become conflict.

4. Government as an increasingly pivotal economic player.

5. Whether the American model of financialism as practiced in the last quarter century is sustainable for either a developed or a developing economy.

6. Identification of the essential elements of a sound economy.

7. Identification of the essential elements of a prudent national policy that fosters economic development for African nations.

These are highly ambitious tasks to wrestle in the few pages of this book. We do not profess to give detailed, conclusive answers, but we do venture some insights and hopefully the beginnings of a practical policy framework upon which all who love Africa and its Diaspora can build.

The initial chapters offer brief critiques of the 2008–2009 American and Nigerian financial crises. This portion is a fast-paced expose of public and corporate governance gone awry. Instead of regulating financial wizardry to direct it in directions beneficial to economy, the American government—and those governments and international financial institutions that adhered to the American model—established a free-wheeling system that collapsed under its own lack of restraint.

This is like the fable of the well. The well contains enough water for the whole village as long as each person is limited to one diurnal bucket. An ingenious sort secretly makes his bucket slightly larger than the rest. This first expansion goes unnoticed so he enlarges the vessel once more. A few observant souls take notice and commit the same offense. Soon, a large minority of the population goes to the well with larger buckets. Fearing the size of their buckets might

attract notice, these opportunists no longer attend the well in the company of the ordinary villager. They must go as a pack to hide their secret, each vouching for the fidelity of the others in case one of the uninformed gets suspicious. However, they are not satisfied with the slight advantage. They enlarge their buckets again and again. In time, the vessels they use no longer resemble normal buckets at all. One day, they go to the well, but their enormous pails bring no yield. The well is exhausted. The water is nearly gone. It has to be rationed by the cup. This is a lesson to us all. Overly aggressive economic behavior by one person may benefit him handsomely, without damaging the overall economy. If too many emulate this selfishness, catastrophe ensues.

Chapters three through five provide the philosophical underpinning of the book. We explore the relationship of man to society and the role of social institutions, such as formal government, in mitigating conflict by regulating competition for scarce resources and by fostering cooperative enterprise when possible and where efficient. We trace the evolution of government, via the accretion and acceptance of economic principles, from being as arbitrary actor that once bridled economic growth into a more or less sentient instrumentality that can serve to facilitate long-term growth.

Chapter six gives a broad overview of past financial crises so the reader can begin to see the similarities between these economic downturns. All major financial calamities are described by the lack of responsible government supervision to mitigate private avarice, easy credit, and undue optimism, leading to excessive risk-taking and spiraling asset prices. Give these factors time to reinforce each other, a financial deluge and subsequent drought are sure to follow.

Chapter seven surveys how financialism has come to displace capitalism in America and Nigeria.

Chapter eight discusses the return to prominence of the Chinese economy and how its modern, industrialized mercantilism affects the global economy.

Chapter nine puts us at the crossroads between financialism and capitalism. Stressing that we are at the decision point between the two schools of economic thought, the chapter discusses the future ailments and threats to economic growth and democratic governance, should financialism retain the upper hand. This chapter presents the starkness of our future, should we allow financialism to enthrone itself as the dominant ideology. Under viable capitalism, wealth begets the accumulation of money. People who create economic wealth get money as a direct consequence and benefit of their creativity. With financialism, a subtle yet fundamental distinction emerges. Money is no longer the sign of wealth; it becomes wealth itself. People are no longer driven to make things in order to earn money. They are driven to make money in order to make more money. In this shift of priorities lies a multitude of sins.

Chapters ten presents a more salubrious future. This final chapter takes the lessons gleaned from past and present crises and turns them into practical, curative recommendations. It summarizes the important separate, yet similar, steps America and Nigeria should adopt to establish stable financial systems that spur durable economic growth by efficiently allocating capital to their real sectors. This chapter outlines steps America must take to retain economic preeminence. It outlines what Nigeria must do to board the train to development. (Note: The recommendations for Nigeria apply to most African nations.)

This next point we saved for the end of this introduction. We did so not because it is the least important, but because it distills a theme at the core of this book. When you get to the root of all major financial crises, you meet fraud—pure, but not always simple, fraud. This crisis is no exception. We talk not about individually spectacular capers, like Bernie Madoff's heist, but a more pervasive, insidious

specimen. This crisis is not a story about a few wrongdoers committing egregious damage. This is the sad tale of an entire system so distorted that it honored and respected greed beyond the boundaries of decency. The financial system itself became a temple of fraud. The investment banks and hedge funds were the high altars where the wealthy made countless sacrifices of the public's welfare and of economic justice.

When government regulation becomes lax and the structure of corporate incentives places an inordinate premium on quarterly, if not daily profits, deceptive practices will become an accepted part of the culture that governs the financial sector. In order to keep business and their jobs in the face of incessant and ruthless competition, reputable professionals stoop to levels of misconduct and deceit once thought gross. When a complex system of transactions becomes founded solely on one behavioral principle, the system becomes a caricature, dangerous to itself and those it purports to serve. When the unbalanced system is the financial sector, the damage posed is enormous. We all know this now. Let this lesson not so easily be forgotten lest the hole in which we find ourselves becomes an even larger morass the next time around. The next time is much closer and more likely than political leaders and mainstream economists would have us believe.

We put the final touches on this book as the protests in southern European nations and the Occupy Wall Street movement took place. These events indicate people are starting to realize that they continuously play the losing hand, not so much because of their lack of ability but because they are victims of a crooked deck. This book raises objections to the same ills that sparked these movements. As such, the book not only seeks to highlight truths about the modern economy, it seeks to speak to the spirit of our times.

Chapter One

The Great Meltdown

Behind every great fortune, lurks a crime. Behind every financial collapse lurks a multitude of crimes.

This book is but a brief warning concerning the need for a new economic model to avoid an era of tumescent poverty that ensnares us all, save a few selfish souls. That Wall Street serves as the logical opening to this story speaks volumes about the role a fistful of banking institutions plays in the fortunes of nations. This is a story of global financial imbalance. Schemes concocted in the moneyed bowels of Wall Street have more influence on the average citizen than do decisions taken locally. Whether that person lives in Nebraska, Nigeria, or the Netherlands has little consequence. Proximity is no competition for power. Despite Wall Street's pervasive influence, most Americans, let alone Nigerians, know little about the fabled site, except that it is a place where high finance is transacted and great fortunes are made. Wall Street is on the same planet we inhabit, but it occupies a different universe.

What happens on Wall Street does not stay on Wall Street, however. It sends tremors across the face of the planet. Except for sporadic volatility in the price of a few choice commodities, very little economic activity taking place in Nigeria or Nebraska influences Wall Street. Sadly, the financial capitals of most nations mimic Wall Street's influence and behavior without critically judging whether the emulation is justified or constructive. If we hope to reshape the global financial system into something more beneficial to most of us, we owe ourselves a duty to study the system's [redacted] greater duty to understand

its shortcomings. Most human beings suffer from a species of selective blindness. Until the very moment the institutions experience massive failure, this myopia obscures significant flaws in the activities of these institutions we have been indoctrinated to trust.

The 2008 financial crisis was the financial diminution of a generation. This was as panoramic and evocative a portrait as one would care to see of the regrettable mixture of money and of the hubris of men who believed themselves to be smarter than they were. The pinstriped inhabitants of the valley of skyscrapers thought they could outfox the danger intrinsic in financial speculation. They were wrong. Let us look at what they did to themselves and the rest of us. Let us hope that being wiser may help us prevent the repeat of a drama in which we mostly served as dumb props and expendable bit players.

Lehman Brothers Bites the Dust

On September 15, 2008, storied investment firm, Lehman Brothers, walked into court seeking bankruptcy protection.[1] Founded in 1850, the firm had survived every financial hard turn, including the Great Depression.[2] Lehman would not escape this one. A firm that traded in billions of dollars and employed the best and the brightest from excellent business schools swirled down the drain to nothingness. Lehman was insolvent.

In its bankruptcy filing, Lehman claimed $639 billion in assets. This sounded like sufficient ballast to keep a prudent financial institution from the swells of insolvency. However, asset values were suspect and inflated by the hot air of indefensibly roseate judgments more than they were based on objective, historical market-based valuation of the assets. Even if valuations were bona fide, they would not have been enough to sate the company's gobbling debt. In making speculative investments with borrowed money, Lehman had been prolific to a fault. It had accumulated $613 billion in total debt

but only had roughly $30 billion in equity, according to its bankruptcy filing. A vast sea of uncertainty separated Lehman from liquidity, let alone solvency.[3] Its entreaties for loans were repulsed by other banks that worried about Lehman's acutely disturbing posture of having one foot atop a mountain of debt and the other in a deepening valley of assets with collapsing values. Rebuffed by its Wall Street colleagues, the once rock solid firm became a mendicant plaintively knocking the doors of the Federal Reserve and Treasury in hopes of being tossed a tad of bread. The toss did not come.

Fresh from injecting a few hundred billion dollars into government sponsored mortgage giants Freddie Mac (Federal Home Loan Mortgage Corporation) and Fannie Mae (Federal National Mortgage Association), neither the Federal Reserve nor Treasury had the stomach to rescue another firm.[4] First rejected by private-sector friend and foe and now by Treasury and the Fed, there was no place to go. Only bankruptcy could prevent Lehman from drowning in the depths of an insolvency the company created for itself. What led to Lehman's descent from its high perch? The venerable old firm had developed an addiction to risky real estate-related investment. During the preceding decade of rapidly increasing real estate values, Lehman ventured into the mortgage market like an overzealous freebooter. It dove in too far, too blindly, and too deeply. Lehman continued to hold long or bullish positions in the mortgage market despite the visible decline in underlying real estate values that began in late 2005. As prices continued to fall and foreclosures, particularly in the subprime market, mounted in 2007 and 2008, the value of Lehman's mortgage-related holdings declined precipitously.

Because it recklessly held the investments long past the break-even point, Lehman was forced to keep permanent hold of the investments. No other firm in its right mind wanted the worthless paper. The paper could not be pawned for anything near par. The value of Lehman's assets collapsed but not so the price tag of its debts. The more anemic Lehman's balance sheet grew, the less willing other firms were to trade with the ailing company. When not

being treated like a leper, Lehman acted like the hapless man waiting at the elevator. Incessantly dunning the "up" button, the man continues waiting because he has already invested too much time waiting not to tarry ever longer for the lift. He is mistaken. The elevator will never come. It is as broken as his reasoning. His mind has become fixated on what he wants instead of what exists. Consequently, the man never seriously considers the possibility that the lift is broken until someone points toward the vast number of people making for the stairwell. By the time he gets to the floor he seeks, it is too late. The meeting adjourned minutes ago. Its participants made the fateful decision without him.

For a period, Lehman masked its weakness with accounting gimmickry that should be outlawed. It actively engaged in repurchase agreements ("repos"). A repo is exactly what its name implies. A party sells an asset with the understanding of buying it back at a time certain. Effectively, this is nothing more than a short-term loan. The tactic enables a firm temporarily to move troubled assets off its balance sheet at critical points during its accounting cycles. Resorting to these agreements and other wizardry enabled Lehman and other prestigious firms to deceive the unwary public about their corporate strength and profitability. Lehman employed this stratagem to the hilt. The legerdemain not only delayed the inevitable; it made it worse. Ironically, had Lehman confessed its feeble state earlier, it might have been the first in line for government largesse. It might have been the beneficiary of a warmer reception than that which the Fed and Treasury eventually meted to it.

By the second quarter of 2008, the anemic Lehman was too exhausted to maintain its dance on the head of a pin. It had become the sick man of Wall Street. The company's fall was as ignominious as it was public. Lehman reported a numbing $2.8 billion in losses and the forced sale of $6 billion in assets to cover the losses and other collapsing positions. By June, the firm's stock had lost 73 percent of its value. By the third quarter, Lehman registered an even

bigger setback of $3.9 billion.[5] The firm had contracted the financial equivalent of Ebola. It was hemorrhaging from every nook and cranny of its risk-laden investment portfolio. Without the financial lifeline from government, Lehman's dissolution via bankruptcy was a story foretold.

Once under the protection of the bankruptcy court, what happened to Lehman was a rather pedestrian shedding and selling of the company's component parts. The Japanese firm, Nomura Holdings acquired Lehman's holdings in the Asia pacific, Middle East, and Europe. Barclays took over its North American operations. However, what transpired with the rest of the investment bank/hedge fund community is the stuff of which a major recession was made.

Before leaving the ill-fated company to the receptacle of history, no one should feel sorry about its demise. Lehman's failure was unwittingly engineered by several kinds of bankruptcy; the most trenchant was the firm's moral vacuity. The firm had assumed the corporate personality and values of a sociopath. Attempting to face the grim reality of the firm's sinking position, several executives from Lehman's management arm disseminated an internal memo recommending top executives forego performance bonuses in 2008. Although the firm was teetering on the eaves of bankruptcy while lugging a six-month loss of $6.7 billion on its shoulders, its esteemed investment managing director, George Herbert Walker IV, a relative of President Bush, greeted the memo as if authored by the anti-Christ with contributions from the horsemen of the apocalypse. At a meeting of the top executives, Walker remarked, "Sorry, team. I am not sure what is in the water at Neuberger Berman. I'm embarrassed and I apologize." (Neuberger was the firm's management arm where the memo was produced.)

"Sorry, team" was partially right. Removing the comma from that statement would make it the whole truth. They were a sorry team, indeed. Except for other boardrooms on Wall Street, one

would have to search the darkest creases of society to find a leader more wretched than this man. He should have stopped at saying "Sorry team!" for that is what they were, and he was the sorriest of the lot. He was not embarrassed, nor did he apologize for the accounting gimmicks the firm employed to deceive the public. He did not regret the staggering quarterly losses that led the firm to the charnel house. He did not voice remorse for presiding over the shabby state of affairs that ended the life of a firm that predated the American Civil War. He exhibited dudgeon only when fellow executives, none of whom would ever be mistaken for altruists, suggested forbearance of *extra pay* in light of the firm's wobbly financial legs.

This vignette illustrates Wall Street's dominant moral philosophy. It was a simple morality with but one tenet: self-enrichment. The people who ran these companies wanted to get paid, and handsomely so. That they might run their firms and the whole economy toward ruin was a relatively small cloud that could not make bleak their otherwise glittering objective. The people who sacrificed and fought over 230 years ago to establish America would scarcely recognize this new breed of egoists as their befitting descendants. They would be ashamed and wonder how their efforts at achieving life, liberty, and the pursuit of happiness were distorted to spawn these heartless sybarites.

Bush administration officials would have received a public flogging from the great men who previously occupied their positions, had those earlier leaders the ability to reach across history to tousle the lapels of their derelict successors. History stared the Bush team in the face. Because they understood precious little about history, they failed to recognize the magnitude of what stood before them. They merely yawned and wiped their eyes, hoping what they saw would go away. They failed to look at facts. Due to this omission, they betrayed reality while trusting in myth. They sought refuge in a distorted interpretation of an economic philosophy to which they maintained only the shallowest connection. Instead of being

pragmatic, they got religion in a superficial way. There is nothing wrong with religion; everyone should have one, even if it is an abiding faith that there is no abiding faith. The problem here was that they chose the wrong faith at the wrong time. At the most inopportune time, they behaved like hair-clothed monks and scribes of the free market. Like all good hypocrites, they were ready to place a meaty sacrifice on the altar, as long as the tender to the gods was the extract from someone else's hide.

They thought giving Lehman the snub would instill discipline and order in the market by demonstrating that the government would not be the patsy for cash-strapped banks. They thought this no-nonsense approach would make the bank reaffirm the true religion and seek recourse to the market instead of petitioning Washington for easy succor. The bank was behaving like a scared child in an unlit room. Believing the bank was frightened by imaginary monsters, Washington decided it would not act the role of the indulgent parent. It would stand at arm's length and demand the bank behave like an adult. The tactic of tough love and harsh handling of Lehman was a trenchant blunder. The bank had reason to be scared. There is no monster more dangerous to a bank than the dual-headed one of too much debt and too little money.

At this juncture, there was no market with which Lehman could deal. Knowing the dragons of insolvency had been unleashed, the market was reduced to hiding in the closet, hoping the creature would be satisfied with gobbling Lehman. Government inaction swelled the market with uncertainty. Its perception beclouded by inappropriate ideology, Washington failed to realize the now fugitive market had become the very thing making the other banks fret. Without government running interference for them, all they could see were the ghastly spirits of failure and massive credit write-downs hovering in their tony boardrooms. To be further subjected to the purported logic of the market was akin to voluntarily jumping into the executioner's tumbrel for the forlorn ride that precedes the brief walk to the scaffold.

The Bush administration hoped the earlier salvation of government-sponsored enterprises (GSEs)—mortgage giants Freddie Mac and Fannie Mae—would be a one-act play, an isolated deviation from their cherished belief in the market as a self-correcting entity that somehow functioned better than human reasoning. (As applied to their squalid reasoning, this belief might have been be justified.)

Supporting these two entities did not smack of blatant heresy in the eyes of the administration. While formally private corporations, there always had been an implicit understanding that the federal government stood behind these entities. This implicit guarantee facilitated the two firms' dominance of the secondary mortgage market. Unfortunately, like Lehman, Freddie and Fannie let their appetite for profit get the better of them. They handled too many securities based on bloated mortgages on overprized real estate. Coming into the speculative game later than the strictly private firms, the two GSEs would be among the worst burned. Their income streams were reduced as these mortgages collapsed under the weight of delinquency or foreclosure. In the end, government injected the two anemic firms with billions of dollars placing them under a conservator for good measure.

By showing the government's resolve to prop these flagging behemoths, administration officials hoped other financial players would be assured of the soundness of the overall system. Washington believed credit would loosen and the market would reassume its mythical status as a self-equilibrating mechanism. With credit more accessible, struggling firms would have a lifeline allowing them to return to what they did best: buying, borrowing, lending, and selling securities and other financial paper to the extent that human avarice would allow. The Bush team thought firms were getting the jitters because things had been so good for so long that people were unprepared for the normal fluctuations of the business cycle. They saw this as an overreaction, an imaginary panic in the face of a squall soon to evaporate. The panic, if not the penitence,

was real this time. What was happening was of greater profundity than the occasional frothing of the business cycle. The cycle was not the problem. The structure of the financial system was such that it had to continue to expand or it would sharply contract; however, the foundation upon which it was built could not bear the additional load. The system was seemingly flush with money, yet broke.

No amount of cheerleading and pep talks could cover that fundamental truth. Consequently, things did not unfold as the Bush team envisioned; others firms sought the same lifeline given the two GSEs. It was at this juncture that Lehman came with hat in hand. Bush and his advisers decided not to intervene in the market to save a purely private firm. The proponents of the free market had asserted the primacy of the invisible hand. In return, they prayed the invisible hand would sprinkle holy water on their decision. What happened next surprised them. Instead of spreading drops of financialist holy water, the invisible hand delivered a hard slap to the face. As is normally the case when larruped by something invisible, the result was panic.

Within two days of Lehman exposing its warts, American Insurance Group (AIG) made government officials rethink their earlier decisions. With over a trillion dollars in paper assets, AIG occupied a strategic position in global financial markets. However, overexposure to real estate, mortgage-related securities, and the wider derivatives markets caused AIG's stock to descend like a boulder resting on duck's down. AIG lunged toward bankruptcy with disquieting velocity. Because of its central role in the financial market, AIG would lug a bevy of other companies off the cliff with it. If AIG were to sink, there would be hell to pay and hell always demands payment in full. AIG was simultaneously a substantial creditor and debtor to other major American and European firms in an interlocking, incestuous network of new-breed financial transactions of which most laymen were ignorant but for which they would soon dearly pay. AIG's demise would send global markets into one of those steep tailspins that generally precede a depression.

Unhinged by the inexorable dynamic of this prospect and pestered by immense pressure at home and abroad, the president and his treasury secretary buckled.

They bailed out AIG by providing an $85 billion loan. In effect, the government of the United States became the guarantor, if not beneficial owner, of the world's leading insurance company. That this anomaly occurred under a president who never missed a chance to extol the free market made Irony itself dance. Otherwise, it did little to stem financial panic. Bush and his free-market consorts were soon to ingest more ample portions of humble pie. After AIG confessed weakness, other large firms stumbled forward to reveal their wobbly knees. The system was set to implode under the weight of unprecedented aggregate debt. Investment banks had outwitted themselves. They had misread the signs of the times. The road they believed led to profit was the highway to perdition. Having traveled far down that path, they finally came to the yawning pit: insolvency. Upon realizing the precarious nature of their self-appointed condition, the bankers no longer acted like the intrepid captains of finance, who listened only to their own advice since all other humans were of such lesser ability that their voices did not matter.

No longer bold, but still unrepentant, they extorted funds from government by asserting the economy would slide into oblivion unless government rescued the financial sector. They borrowed money from government and, thus, from the taxpayers whom they had already filched as consumers of their junk mortgages and derivatives. They did this with a chip on their shoulder, almost hectoring that the money better be lent so they could prevent doomsday from coming. They neglected to mention that their recklessness had invited doom in the first place. From this inauspicious start, the firms would assiduously work to revise the history of the moment in order to cast dark blame elsewhere. Never in human history has such a massive and compound financial deception been inflicted on such an innocent, unwary public.

On October 3, 2008, Congress approved the Troubled Assets Relief Program (TARP), a $700 billion emergency subsidy to the financial sector.[6] Major financial houses were deemed too strategic or "too big to fail," although they already had failed due to their own schemes and devices. Because of the de facto insolvency of the banking sector, these houses were no longer lending to themselves, let alone the rest of the economy. With arteries of lending clogged, activity in both the financial sector and real economy became marcescent. Treasury immediately made $250 billion available to banks under a vehicle through which the government would purchase preferred stock in the banks. By this act, the free-market/small-government Bush administration opened the backdoor to effective government ownership of the nation's largest financial players. The free market had betrayed Bush. To thwart complete economic breakdown, he betrayed it. For Bush, this must have come close to a display of public indecency; taking this necessary, but piecemeal action, exacted a psychological toll on the already fatigued man. With his war policies in tatters, political popularity languishing in the ravine, and now his cherished anthem of free-market infallibility rendered discordant, the fire had gone out of the man. During the last months of his term, Bush became the invisible president.

In late October 2008, the Federal Reserve reduced the federal funds rate to one percent in hopes of encouraging borrowing and lending. By 2009, the rate fell nearly to zero.[7] All prayed the turmoil would confine itself to the financial sector and not further enfeeble an already sluggish real economy. However, policymakers waited too late to contain the injury to this lesser dimension. Distress ran through the real economy like polyester-attired patrons fleeing a theatre fire. By November 2008, construction of new homes fell to the lowest level since 1959.[8] Unemployment reached a 16-year high, only to worsen the following year. Overall price levels witnessed their steepest decline in years. Consumers leveraged themselves to the hilt in the previous years, and now banks withdrew access to easy consumer credit. Unable to borrow more, the average person

was forced to buy less. The consumer needed to pay down existing debt. Consequently, flaccid consumer demand forced businesses to cut prices to have a chance at moving dust-gathering inventories from full warehouses. The stock market rolled back to less than 60 percent of the value it had in October 2007, when it touched its high watermark above 14,000 points.[9] The nation faced the possibility of going into a deflationary swoon that would have landed it on the walkway to that most dreadful economic condition: DEPRESSION.

The imminent insolvency of America's big three automakers became the most symbolic, consequential manifestation of how deeply infection had eaten into the sinews of a once insuperable economy. The credit squeeze and withering consumer demand put auto manufacturers in mortal danger. Contraction of the auto manufacturers replicated the embarrassment the large financial firms suffered in September. The consequence of failure was enormous. Auto firms and related companies directly or indirectly employed roughly a tenth of the workforce and represented a larger portion of the nation's overall manufacturing capacity.[10] Demise of the auto triad would have shuttered more than a few companies. Their collapse would have removed a pillar upon which the real sector of the American economy was erected. If those companies fell, hundreds of thousands of jobs and scores of other companies would have fallen into the broadening maelstrom. Again, depression loomed, this time the threat emanated from the productive sector.

Like the financial firms before them, automakers trekked to Congress seeking government help. In September 2008, Congress tarried for weeks before approving the emergency financing measure for the car companies. At a time when every hour meant tens of millions of dollars, Congress dithered in passing a measure that economic necessity made inevitable. This was ignoble. Weeks of delay squandered billions of dollars and steepened the economic decline, making it harder for the modest ad-hoc remedial policies to gain traction. Citing their disdain for government interference in the operation of the free market, conservative Republican lawmakers

bucked against auto industry relief. Ultimately, political reality cut deeper than economic theory. Clearly, government had to buttress the auto industry. The alternative would have been the equivalent of amputating the hale limb, then demanding the patient limp home on the gangrenous other. Letting the industry implode would have rewritten the definition of irresponsibility. Yet, Congress tarried until what was an economic inevitability became an obvious political necessity. Again, weeks were wasted, with each morning dawning on a deepening crisis.

Finally, Treasury was granted approval to loan TARP funds to General Motors (GM) and Chrysler. On December 19, a loan of $13.4 billion was approved for GM and $4.0 billion for Chrysler. The US Government had now entered the car business.[11]

The Obama administration would later pump over $30 billion in additional funds to keep GM afloat. The government had become the largest stockholder in GM. In the face of grave exigency, the apotheosis of the free market had become farcical. Necessity required collective action to stave collective ruin. In the end, GM would undergo reorganization under Chapter 11 bankruptcy proceedings to place the firm on more productive footing. By the end of the 2009, GM began repaying its loan ahead of schedule. By April 2010, citing GM's advance repayments, President Obama touted the auto bailout as a success.

No recession is beneficial, but this one had a salutary political effect. It came during the most intense part of the presidential campaign and was the campaign's most decisive single factor. Immediately after the political party conventions, the race closed tighter. When the financial crisis became erumpent, John McCain committed an immodest act of political self-defenestration. On the eve of the Lehman collapse and with rivulets of sweat trickling down the nation's financial spine, McCain asserted in a campaign speech that the economy was "fundamentally sound." After being informed the economy was convulsing like an addict without his fix, McCain

tried to snatch the words back. He could not. While not as egregious as Neville Chamberlain's "peace in our time," the statement revealed McCain as a crotchety septuagenarian whose reality was an individual one, not one the rest of the populace inhabited. He was out of touch with the times, at a time when touch mattered supremely.

While everyone hunkered for the approaching storm, McCain treated the matter as one does a slight inconvenience in preparing the backyard spring picnic. He further compounded error by making other leaping, categorical statements suggesting he could influence the course of the economy by his mere posturing. He could do nothing of the sort. In trying too hard to seem presidential, McCain reduced himself to being an oracle of bluster. Even after the election, the once esteemed senator seemed wedded to this blathering role. In the end, he resembled the old cavalier dashing gallantly upon his steed. This would have been a noble image save that he had mounted the horse backwards.

The fresh face and intelligent vitality of candidate Obama easily lent themselves to an impressive presentation. He exuded confidence and looked like the change needed to inject sustenance into a withering economy. After eight years of Bush's caricature of Reaganite economics, Republicans had run out of ideas. All they did was repeat free-market canticles. The less plausible the arguments, the louder they sung, as if vigor and volume aptly substituted for reason and acuity. Obama promised something new. Upon his inauguration, he began to deliver, but only in halves.

He continued the Bush approach to recovery, only with more verve. Bush and his people behaved as if their free-market hearts were broken by it all. They were not in the fight. Theirs resembled a last ditch, rearguard action. Obama and his team entered the fray, giving piecemeal reform half an attempt. Faced with such a large problem, half would not be enough. What Obama did was better than nothing but less than required. Bush and his men were foolishly

consistent in their love of the market to the extent that they waited too long to intervene. When they did, they did so with ruptured emotions. Obama and team were intellectually less consistent than their predecessors. On one hand, they properly claimed the market had failed to the extent that it could no longer be deemed self-stabilizing. Yet, their actual efforts were substantially geared toward revivifying the financial sector as it was before the breakdown. Major reform was not on the roster. Although the market did not work, Obama and his troupe defended and resuscitated it in its sordid form. In the end, what he called reform was simply changing a few screws and oiling a hinge or two.

This inconsistency became characteristic of Obama's approach to domestic policy. Obama spoke in progressive tones but governed in moderate hues. He tried to maintain a balance between the liberal and progressive segments of society, who constitute his strongest political supporters, and the moderate-conservative business community, which had provided a good chunk of his campaign financing. Keeping a foot in both camps when they were on opposing ends of the economic battlefield was a trying feat, even for an astute politician like Obama. While Obama personally weathered his strategy of running back and forth between irreconcilable positions, economic policy suffered more than it should have. So did the recovery and the millions of livelihoods that depended on it.

On February 17, 2009, newly inaugurated President Obama signed the American Recovery and Reinvestment Act. This measure was not a precise economic stimulus measure; it was more a political hodgepodge of government spending and tax cuts equaling $787 billion. The Act would help keep the economy from depression. However, the sum was too small and wrongly directed in terms of spending priorities to spur a firm recovery.[12] At least another $500 billion was needed; $750 billion would have been better. More funds should have been allocated toward improving America's sagging infrastructure and bolstering cities and states pauperized by the crisis.

The rest of the world once envied America's roads, bridges, and ports. Over the years, these magnificent network of structures had been allowed to deteriorate to second-rate status. America spends less, in terms of percentage of gross domestic product (GDP), on infrastructure than most Organization for Economic Co-operation and Development (OECD) economies.[13] The American Society of Civil Engineers (ASCE) gives the nation the inauspicious grade of "D" for the status of its infrastructure. ASCE recommends a five-year expenditure program of $1.6 trillion to return America's infrastructure to top-of-the-line quality.[14] Surely, infrastructural expenditures could have had a positive dual effect. First, investment in large-scale, labor-intensive work would generate a beneficial multiplier effect by spurring significant real economic activity and employment, thus boosting aggregate demand. Modernizing the infrastructure would facilitate expansion of whole industries and individual businesses employed in erecting new structures, as well as those that make use of the repaired fixtures. These expenditures would have compensated for the reduction in state and local government activity.

The financial crisis crippled state and local governments. These governments lost over $200 billion yearly in 2009 and 2010. The failure of the stimulus package to address their plight meant that half of the measure was not extra spending, increasing aggregate government expenditure. A large portion of the new federal money simply filled the hole in aggregate public expenditure left by reduced state and local spending. However, federal spending historically has been less efficient than the state and local varieties. In terms of economic benefit, simple pass-through grants to state and local governments would have been more effective. Yet, political calculation diluted economic sense. The already modest stimulus would have less impact than intended.

To be fair, part of the problem was understandable in that Obama's team, like most people in and out of government, did not realize the depths and uniqueness of the crisis until much later. Most

of his advisors were active in the Clinton administration. The economy was buoyant during that earlier administration and had not become burdened by massive debt. It was human nature that these officials would seek guidance from their prior experience in government, particularly since that earlier stint was successful. In the Clinton 1990s, deregulation and fiscal moderation were the primary economic drivers. The economy of 2009 proved to be a different creature. The predilection toward modest remedial steps that would give freer hand to financial actors would not have the same effect as it did in the 1990s. By 2009, the nation had stumbled into a balance-sheet recession. This required different, more radical curatives than those with which officials were acquainted. However, Obama's team could not see this. Their prior success somewhat blinded them. Having steered the ship through the straits in fair weather, they believed they could steer it much the same way and to the same result, though the weather had turned foul. They would do better than their Bush administration counterparts. Yet, they would leave some important things partially done.

Federal Reserve Chairman Ben Bernanke had a mindset similar to the White House economic advisors. He opposed financial reform in its strongest forms, such as nationalizing or dismantling large banks deemed "too big to fail." His remedy was a menu of financial concoctions that would keep the banks afloat while leaving the real economy to drift. In fairness to Bernanke, the downturn was past the point where monetary policy could do much good. Once the banking system was put on life support, fiscal policy was the only route out of the thicket. Bernanke recognized the primacy of fiscal operations in this particular setting (balance sheet recession). Nevertheless, Bernanke continued to stuff banks with bales of money at nearly zero interest rates.

Banks borrowing this money then walked across the street to buy treasury bonds bearing significantly higher interest rates. What a deal! The firms had gone bust and nearly took the economy with them. Their fate was not to suffer the consequences of their

recklessness but to be indemnified by government. They became the select beneficiaries of a taxpayer-funded scheme. They were allowed to borrow as much as they wanted, without interest from the Federal Reserve, only to invest those same funds in interest-bearing treasury bonds. In effect, the government was paying these self-destructive firms to borrow from it. Making matters worse, those firms considered too large to fail were able to gobble loan funds in the private market at artificially low rates because the firms were now backed by an implicit, yet deafening government commitment to honor their debts if they could not.

In furtherance of this lopsided, financialist approach, the Fed initiated a massive, trillion dollar round of Quantitative Easing (QE). Under this mechanism, the Fed purchased long-term government bonds from private-sector holders by crediting the deposits of participating banks and firms. The stated purpose of the exercise was to lower long-term rates, while enhancing the liquidity of lending institutions. This was to ostensibly encourage lending spurring the general economy. The effect on long-term rates was questionable. As a way to stimulate the overall economy, QE was a lark. Holding more money did not prompt the banks to lend more to the real sector as the Fed had hoped. This aspect of QE was based on a conceptual fallacy. QE proponents mistakenly believed changing the level of bank reserves would increase loan activity. The Fed inverted the causal relationship.

The relationship travels in the direction opposite to what the Fed's action suggested. Lending levels and a bank's willingness to make a loan are not dependent on the quantity of reserves a bank holds. Generally, banks first make loans then subsequently obtain additional reserves in order to comply with Fed reserve standards. Although higher reserves help ensure liquidity during times of contracting credit, they do not presage increased loan activity. In this regard, QE was an exercise in incorrect sequencing, the equivalent of drawing the map before actually surveying the area to be represented by the drawing.

Despite QE, the banks' appetite for making loans to the real sector remained suppressed due to jitters over the balance-sheet recession. Instead, banks used the funds to shore themselves and, by extension, the financial sector. The funds were not translated to the real sector; they were channeled into the whirlpool of financial speculation. QE served to prop the prices of financial instruments and other items amenable to the speculative impulse, particularly commodities speculation. QE and its 2010 successor, QE2, would do little for the overall economy. The two exercises would artificially inflate the financial sector and equity prices. These endeavors served to create mini-bubbles. When they popped, they would create minor panics, the aftershocks of the massive 2008 quake.

This period of stilted financial engineering introduced a new beatitude into the modern secular gospel: "Blessed be the large banks for their recklessness shall make them whole! Cursed be the taxpayer as they shall be rendered poorer, yet shall inherit nothing except more debt." Indeed, those that have shall have more. Those without shall lose the little they have.

Due to the velvet-glove treatment it employed, government aligned itself with the financial sector, guaranteeing the large banks handsome profits. This facile subvention allowed banks to eschew the bitter discipline required had they been forced to write down troubled assets. The bad assets remain buried in company balance sheets and have yet to be reduced to market value. Too many financial assets are still marked to make-believe valuations. Despite the massive government subsidies, the financial sector remains weaker than its collective balance sheet suggests.

Meanwhile, the push for financial reform that would prevent another crisis suffered from vitality deficiency during the first years of the Obama administration. The problem was not Obama's alone and definitely was not of his making, let alone his choosing. Over the last 30 years, the financial industry has supplanted manufacturing as the driver of the American economy. Its vast and facile liquidity and

ability to comfort a politician's campaign coffers gave it too deep and commanding a foothold in Washington. Big money snuggled up to big power, and they embraced as only the rich and powerful can remaining tethered by the reality of what each could do for or to the other. Washington held the power but Wall Street held what those in Washington needed to remain in power.

Washington and Wall Street might seem to be different, but they acquired an identity of interest destructive to genuine reform and the very foundations of representative democracy. True, it remains the people who vote in their representatives. However, big money selects the candidates who then parade themselves as sentinels of the people. The nation's founding fathers would have found the relationship meretricious and low. The showman P.T. Barnum would have approved of the swindle, viewing today's bankers as his moral progeny. The banks may not have had money to lend to legitimate businesses in 2008. Long before the crisis had caused them to become illiquid, they had placed an ample, rainy-day deposit to maintain influence in Washington. When crisis hit, they called in their chips.

Economic and financial advisors to both Democratic and Republican congresspersons overwhelmingly belonged to the Wall Street corps. Having come from and likely to return to this high-priced lair once their stint at public service ended, these officials were not of the mindset to amend the contours of their profession and the tenets of how it conducts business. Reform would have meant disowning their life's work product and besmirching their own affluence. Intellectually and psychologically, they were wedded to Wall Street in ways that did not lend themselves to even temporary disillusionment or estrangement, let alone formal separation. It was impossible for them to see the downturn as signaling systemic imbalance and the need for critical reform. The turbulence was just a rough patch that would vanish quickly, if laymen and ignorant populists only shut up and let them get on with the business of the financial sector. It was like entering a saloon in

the early morning to find the bartender reeking of brandy and sprawled unconsciously on the floor. Instead of giving due consideration to the possibility that the man might be saddled with an addiction, the owners conclude the barkeep was so tired that he spilled liquor on himself after fainting from the exhaustion of standing for an entire evening. Faced with this situation, their remedy would not be to seek treatment for the man, but to install a comfortable stool behind the bar. This would only encourage further misconduct, albeit in greater comfort.

Measured against the extent of the crisis, banking reform attempts in 2009 were minimalist. Most of America's best economic minds called for wider reaching reforms than those in Congress and the presidency dared. Instead of listening to the economists, Washington lent its credence to the testimony and recommendations of the Wall Street firms that fouled the economy in the first place. The glue binding Washington to Wall Street was much stronger than factual warnings from renowned economists. Reforms, such as reestablishing the traditional separation between investment and commercial banking as well as dismantling the larger banks so that they would no longer be "too big to fail," were declared extinct before being given adequate hearing.

After months of glacial trekking on financial reform, President Obama mounted the podium on April 22, 2010, to give what many thought would be a seminal address on financial reform. Those expecting a date with history were served a platter of disappointment. After giving a compelling summary of the financial crisis that seemed to presage a clarion for reform, someone seemed to have excised the climax from the presidential address. President Obama meekly called for Wall Street to exercise its best behavior and voluntarily cooperate with his administration's efforts out of a sense of civic responsibility. The speech was askew, like requesting a wolf to attend an advance course on shepherding. The possibility that Wall Street would voluntarily sanitize itself was nil. That the wolf would graduate as the class's most congenial student was likelier.

This is no slight on Obama. He represented his country's best hope of turning to its better economic self. Obama had the makings of a good president; moreover, the state of affairs would have been dire had Obama's adversary won the election and honestly implemented the policies he espoused. Much of the world would have succumbed to the headwaters of an even deeper recession, if not worse. Despite Obama's obvious gifts and their historic significance, his economic stewardship was deficient. That a president as astute and popular as Obama dared not bring forth meaningful financial reform demonstrates the firm hold the banking sector has on Washington. At first blush, it appeared that instituting healthcare reform was a bridge too far and banking reform would be more immediate and practicable. Several other presidents had tried health reform; each had failed. Given the imminence of the recession, financial reform would have seemed more accessible. It was not.

Partly, this resulted from a fateful decision by Obama regarding the issue that would be his top priority. He made healthcare reform a priority and spent significant amounts of good will bringing it to fruition. This had political costs. The powerful insurance lobby and its campaign generosity moved decidedly against Obama and his Democrats to ensconce themselves in the lap of the Republican Party. The industry's efficient public relations efforts helped create significant public doubt about healthcare reform. For good reason, this had many Democratic candidates anxious coming into the 2010 congressional elections. The November 2010 congressional elections would change the political equation in Washington. Obama's party got trounced. The Republicans took control of the House of Representatives and reduced the Democratic majority in the Senate. The thin hope of financial reform died.

The pyrrhic nature of the healthcare victory was not lost on the studious president. Having escaped his wrestling match with the insurance industry with his political shirt in tatters, the president was not pining for battle with the large financial firms. The 2010 congressional elections confirmed that he had better not try to collar

the growling dog. He would leave the big banks alone for the most part. Moreover, his heart never seemed as wedded to financial reform as to health system reform. The financial crisis sealed his election, but it was never the lodestar in his constellation of issues. He did not begin his candidacy as an economic reformist. His appeal was on other substantive planks.

The economic downturn was something unexpected that came along. He handled it better than did his opponent and this provided much of his victory margin. Yet, in his estimation, it remained nothing more than a comet flashing across the sky in a dramatic, timely manner. However, like any good comet, it was to keep going. For it to park over the nation was inconsiderate. A fortuitous event had turned into a prolonged distraction, keeping him from pursuing with full ardor the design he had for his White House. The crisis encroached on his policy strategy. Instead of wanting to fix what caused the crisis, he wanted to get it behind him so that he could get on with his priorities. As such, he committed a mistake common to ambitious, brilliant politicians. A bit too confident in their ability to discern the golden road, they too readily dismiss any suggestion that their map does not match the road they walk. Instead of dealing with what is imperative, such leaders seek to deal with what they want.

Race still mattered as well. Although it was not a barrier to getting into office, it served as a constraint once in the White House. A president expects opposition but also should enjoy the reasonable expectation that the opposition is a loyal one. Effective governance is undermined to the extent the opposition is so unreasonable and vehement that it believes lack of cooperation equates with patriotism. Once President Obama began governing, the opposition quickly coalesced, labeling him an irresponsible radical with an anti-American agenda. They called their president a traitor for no reason and without a scintilla of evidence besides their anger. Effigies of President Obama as Hitler or Stalin in blackface or as a simian in a business suit were brandished and held high in conservative gatherings throughout the nation. One person claimed Obama was

an "afro-socialist." The term was meaningless as a description of the president, but it said much about those who echoed it or similar nonsense.

Rancid jeremiads poured forth despite the reality that President Obama's policies were remarkably mainstream. Most of the opposition was emotional, bordering on the illogical. Racism partially drove the overly demonstrative exhibition. President Obama had proven himself so credible, unthreatening, and sufficiently light-skinned that enough voters elected him over the anachronistic and vituperative senator from Arizona. Yet, upon trying to steer America in a minimally reformist direction that might softly touch deep pockets, he became "too alien" to be allowed to bring change in which the financial establishment could not believe. His election showed that racism could be overcome. The vehement reaction to his governance showed that it had not been overcome. President Obama, by personal inclination and sensing the importance of his role as the first Black president, was too cautious. He wanted to reassure the markets that he was reasonable, even if they were unreasonable toward him. Thus, he quickly relinquished his tepid hold of the reformist mantle and dove headlong into the financial mainstream.

By late 2009, the banking industry and the Republican Party had started to succeed in turning the political narrative to their liking. After soaking up hundreds of billions of dollars in government funds to restore their solvency, the banks should have expressed gratitude or remained chastely quiet. Instead, these beneficiaries of government subvention joined the Republican attack against the administration for its recovery-oriented deficit spending! Such a flagrant volte-face gives hypocrisy a bad name. Additionally, it amounted to feeble economics. Now feeling healthy and no longer in need of the government dole, banks wanted to curb public sector expenditures so that less money would go to government social programs. They believed this would liberate more funds for financial-sector activities.

Conventional free-market economics teaches that private-sector investment is inherently more productive than its governmental counterpart and that government borrowing to fund public sector deficits crowds out private-sector borrowing. However, this conclusion is bunkum. If government borrowing actually preempted private borrowing, the financial crisis would never have occurred. The conventional theory implies that government and private debt accumulation cannot climb simultaneously. We know this to be false. Since 2000, private and public debts have galloped dangerously fast and have done so in tandem.

Government borrowing in the modern fiat money/fractional banking system rarely crowds out private-sector borrowers. Under our current system, the ability of private banks to issue loans is not limited to the funds banks hold as deposits. As long as an applicant is creditworthy, a bank can simply create the money for the loan. The fractional reserve system allows banks to create loans far above the amount of actual funds held on deposit. Because money supply is no longer chained to the gold standard and because government has delegated power to create money to the private banking system, private banks have wide, unprecedented latitude to create as many loans as there are eligible applicants for them. Consequently, government resort to deficit borrowing does not consume available loan funds so as to preclude otherwise creditworthy private actors for their desired levels of borrowing. Moreover, during a balanced sheet recession, there are precious few loan-worthy, private-sector borrowers to crowd out. In this situation, most private actors are too preoccupied with reducing their debt overhang to assume new debt obligations. At such times, government borrowing may be needed to keep the financial sector and entire economy from further deflation caused by lack of aggregate private demand.

The most important determinant of the level of private borrowing is the interest rate. Textbook supply and demand analysis does not determine the lending rate. The rate is not shaped by the free market as much as it is set by the Federal Reserve, the central

bank. The Fed, or any central bank for that matter, generally sets rates based on its impression of the trajectory of the economy. Lower rates spur a sluggish economy. Higher rates keep an energetic economy from overheating. Of course, the Fed can become inured into believing there is little danger of overheating because full steam ahead and bulky profit-taking are the new anthems. The Greenspan Fed believed the economy had broken the grip of the dreary business cycle. Consequently, the Fed continued to pump cheap money into a system already flush with massive debt. The worst financial crisis since the 1930s was the price paid for ignoring the hidden costs of cheap money.

Unfortunately, the anti-deficit rage worked like a political masterstroke. By the beginning of 2010, senior administration officials, including the president himself, were parroting the theme that deficit reduction was the top economic priority notwithstanding the reality of a country still in the thicket of high unemployment, low real estate prices, mounting mortgage foreclosures, and a crisis in city and state government finances. Instead of searching to cut short-term spending, government should have been looking for ways to increase short-term spending in order to boost employment and infrastructural capacity.

By late May 2010, Obama administration officials and Wall Street enthusiasts were beaming that the worst was over and the economy was in recovery. This was debatable; even if true, the price paid was a high one. Over 8 million jobs had been lost. The manufacturing sector was the hardest hit, losing over 2 million slots. Many of these positions would not return. In 2008 and 2009, over 5 million property foreclosures were filed. The official unemployment rate during this period temporarily climbed over 10 percent and the real rate, including underemployed people, approximated 18 percent.[15] To avoid the approaching snare of bankruptcy, state, city, and local governments cut vital services and educational budgets. At one point, the stock market relinquished over 40 percent of its value.

The Fed pumped over $1.5 trillion into the financial sector to buy the toxic assets of the banks. Additionally, the Treasury provided nearly $250 billion in loans to the large banks. QE, QE2, and other special programs added trillions. Overall, the federal government provided over $10 trillion in relief to the financial sector. Despite this historic infusion, the sector was not lending much, except to itself.

Because of the recession and the remedies used to combat it, the concentration of wealth in America became more pernicious. The 12 largest banks now controlled over 50 percent of all bank assets in America. In 2003, 23 banks was the magic number needed to reach that threshold. In 1998, 42 banks would have to be counted before attaining that percentage. Clearly, America was on a march toward higher concentrations of wealth and power unmatched in the post-World War II era. America became saddled with its most skewed income distribution since the Great Depression.

JP Morgan Chase, Merrill Lynch, and Wells Fargo together hold more than 30 percent of total deposits in the US. Along with Citigroup, they account for half of the mortgages being held and over 60 percent of credit cards issued.[16] They have also returned to their risky dalliances with collateralized-debt obligations (CDOs), credit-default swaps (CDSs), and mortgage-backed securities (MBSs). For all the efforts made, it seems the Obama administration was able to save the economy from depression, but not save the economy from itself.

In mid-May 2010, Congress passed a financial reform bill. The law established a weak consumer protection agency and added some transparency to the derivatives market. Yet, it left the banks larger than before the crisis. The law did not reestablish the clear segregation between commercial banking and investment banking that existed under the Depression-era Glass-Steagall Act. Nothing in the new bill would have prevented the 2008 crisis. There is little in it that will stop the next collapse.

Moreover, from America the recession spread. America's English-speaking relative, the United Kingdom, was similarly affected. Banks fell to their knees, housing prices dropped, and foreclosures increased. Government intervention became inevitable to stave even greater economic catastrophe. The recession had a political cost as well. The public blamed the governing Labour Party for being asleep at the switch when the crash occurred. Voters gave Prime Minister Gordon Brown the hard boot, kicking him from office due to perceived mishandling of the economy. (Ironically, Brown had touted his economic and financial leadership as his strongest attribute for high office.) The crisis spread its tentacles farther across the globe. Trade fell by 20 percent at one point. Global financial markets estimated a loss of $30 trillion in notational values. The financial houses would not suffer these losses alone. Various governments provided bailouts that covered much of these losses. This represented the most massive shift of funds from ordinary citizens to the affluent in the history of humankind. Never have so few taken so much from so many.

Blaming the Victim: The Subprime Crisis

Two men are walking down the street. Suddenly, they observe a man staggering across their path. His clothes are afire. They stop to assist the injured fellow. Upon noticing billows of smoke emerging from the nearby house, they leave the man to attend to the dwelling. Upon returning, they find the burning man groaning in severe pain. One man states to his companion: "It was terrible of this man to enter the house and set it ablaze. He has no regard for property. He must not be from here!" The other man nods in hardy in agreement.

A normal person happening upon this scene would think the two men insane. He would think the injured man doubly unfortunate, first for his injuries and second for his rescue being dependent on this pathetic duo. A kind heart would have deduced the man did not use himself as a human match to commit arson. Reason would tell you the man was in the house when it caught fire. He was a victim,

not the perpetrator. The strange thing is that you already have happened upon this scene. Yet, instead of questioning the conduct of the woeful duo, most of us have joined them in fustigating the hapless victim.

To divert attention from their costly misconduct, the great financial firms, joined by their political cronies, developed an elaborate tale that the subprime mortgage market caused the financial meltdown. They claimed government policies promoting affordable housing for working class people were the heart of the crisis. They argued that the market did not err. Misguided altruism toward poor, undeserving minorities had distorted the market. This distortion sparked the financial derailment, the moneymen said. They wanted the public to believe a modest gesture toward egalitarianism led to near ruin. Their message was that liberal ideas may seem noble but are ultimately dangerous; however, the indiscriminate, amoral churning and thrashing of the market constitute virtue itself. By casting down the poor and working class as scapegoats, they attempted to elevate their beloved market to the status of a secular deity.

Yet, the market is neither an abstraction, nor a spirit. It is the amalgam of the economic activities of imperfect humans, the young and old, rich and poor, dull and sublime. As such, it is as prone to error as anything made of flesh or anything made by those made of flesh. The market is not the hand of God or any other ethereal hand. It is our composite economic activity, meaning it is a vast tapestry of our decisions, omissions, insights, ignorance, wisdom, biases, fortune, luck and tragedy. As such, the market often serves as a collective brake and counterweight against individual misadventure. At other times, it can smother keen individual insight under the heavy gauze of conventional wisdom. We should respect the market but never pray to it because, in so doing, we pray only to ourselves.

The stereotypical subprime mortgagor perfectly fit the scapegoat's role. The common perception was of a poor, barely

educated inner-city minority who knew he was unqualified for a home loan. Yet, one by one, until the numbers swelled into millions, this subclass that had always inhabited the narrowest ledge of society managed to outwit the largest financial institutions in the world. The financial firms created this mental impression of multitudes of unemployed Blacks and Latinos bilking the system. The firms knew the media and mainstream society would believe the false indictment because it was evocative; it harmonized with conservative angst over issues—such as affirmative action, the shifting demographics in America where whites are a declining majority, and President Obama's meteoric climb to the White House. The core message was that liberal social engineering and the political empowerment of minorities had endangered the nation's economic health. This argument was the subtler progeny of the antebellum apologia that Blacks lacked the mental wherewithal to survive in free society. Thus, they were better served by their own involuntary servitude. The contention that Blacks and others were unqualified for home ownership, the cornerstone of the American dream, was fitting gruel for conservative parlors and their tea parties. It was also the meanest slander.

It defies reason that an unorganized mass of poor, unsophisticated people could deceive large and powerful financiers in their own arena. In effect, banks demand that we believe they involuntarily wrote mortgages they opposed and made loans they otherwise would have rejected. This is more than deceit; it is that ugly thing called a lie within a lie. Closing a home mortgage transaction is a traumatic moment for even the sophisticated layman. Most people become mentally numb on viewing the mountain of documents presented at a mortgage closing. They enter a deeper fog if they attempt to read the incomprehensible legal jargon contained in those documents.

The poor and working class sign all documents thrust before them, not understanding the entire transaction or the lexicon of a single paragraph in any of the instruments. The entire process and

the documents comprising it are alien to them. There is nothing in their academic or work experience that prepares them for this onslaught of paper and arcane terminology. They are merely swept by the avalanche created by the mortgage lender and the phalanx of officious employees shuffling and stamping documents at a pace bewildering to the mortgagor. Even most college educated middle-class borrowers are intimidated by the process and barely mutter a peep as they sign documents they do not comprehend. While they may not understand the transaction in full, both working and middle class people will be called to repay the debt in full and with interest. The mortgagor rarely controls the process. Like a sheep unaware if it is being led to the slaughter or its next meal, he is at the mercy of the people on the other side of the transaction. Yet, the financial sector and complicit politicians have successfully junked the public mind with the fiction of poor, dark-skinned people duping the mortgage banking system sector, thus bringing the global economy to its knees. This tableau is so farcical that words should not have to be expended to dispel it.

Yet, the majority of people believe the dark fable rather than the plain truth. They believe the calumny because it allows them the false comfort of thinking that the financial system was and will be fundamentally sound just as soon as the Blacks and Latinos are made to take their grubby hands away from political power and the money jar. Those who perpetrated the crime have cried the loudest, thus portraying themselves as the crime's most aggrieved victims. Social prejudice against the lower class has been exploited to mask the financial knavery of the most affluent. Never in the history of humankind have the poor and disadvantaged brought down a financial system except through force of arms. The poor have never outwitted the architects of the financial maze, how can they? The current episode is no exception to this maxim.

The truth is that the potential subprime homeowner did not chase the banks. The banks sought them. Jettisoning the standard fixed-rate mortgage as quickly as an escaped convict disposes his

prison garb, banks began issuing a cornucopia of mortgage instruments that defied traditional underwriting principles. They developed various types of mortgages: adjustment rate, interest only, no interest, no down payment, no income, and no documentation mortgages. The unifying characteristic of these new mortgage species was that they functioned like delayed-reaction credit cards. The unwitting borrower would have unburdened access to money for a significant period. The trap was that he would be required to pay an inordinately hefty price in the not-too-distant future to make up for the earlier period of low interest borrowing. These instruments were time bombs placed in ornate boxes wrapped in aromatic paper. Armed with this new supply of mortgages with which to entice the unsuspecting and the gullible, banks ventured near and abroad to bestir latent demand. People fell prey by the millions.

Banks coaxed this subterranean demand to the surface not because of altruism. They could care less about the poor man's dream of owning a home. The poor man's modest fantasy was just the convenient vehicle for the banker to realize his own dreams of king-sized profits. Due to the lax monetary policies of the Federal Reserve, banks were saddled with a disturbing problem: they were awash in liquidity. Banks were eager to lend to the real estate market because real estate values were projected to rise continually. For a bank, holding too much money is better than holding too little. Yet, surfeit still presents a problem. Idle money earns no profit. The more money held, the greater becomes the compulsion to invest. Since banks mostly invest by lending, this means the compulsion to lend becomes more acute. If care is not taken, these urges may grow more powerful than reason and the restraint that reason brings.

In such a case, the pendulum swiftly swings from having too much idle money to lending too much for risky purposes. The risky adventures eventually implode, failing to bring in adequate return on the dollars invested. The lender finds that it has leaped into the precarious situation of not having sufficient capital to cover its

future liabilities. During long periods of easy money, banks tend to lose focus. They become too accustomed to the high volume and fast velocity of money circulation. Forgetting that much of what they hold belongs to others, banks stop treating the money as carefully as they should. They come to think of it as being in unlimited supply and, thus, always at their command. Banks supplant the fiduciary's high standard of care with a base recklessness.

In the early part of the last decade, money was plentiful. The banks held fistfuls of other people's money as well as their own. The custodial retention of money, even money easily come by, is saddled with expectations of profit. These expectations, coupled with the banks own greed, led them to be loan aggressively. The money needed to be lodged in investments reaping nice profits because bankers and the people who invested in the banks had great expectations of meaty yields. This dynamic was based on the commonly held assumption that the more money one has, the more money one will make. This assumption is sufficiently true to encourage a level of speculative behavior that will also prove the assumption is fallible.

Real estate served as the preferred investment haven after the technology bubble burst in 2000, causing the brief 2001–2002 recession. After the bottoming of the dot-com craze and the fall of technology stocks, the Fed primed the recovery pump with easy money. That was prudent policy for the times. Because of the Fed's action and the fact that misguided investments were not made with loads of borrowed money, the 2001–2002 recession remained confined to the stock market. Not having suffered greatly, if at all, from that brief recession, many investors remained intrepid. Their buoyancy was increased by a ceaseless tide of easy money as the Fed retained its lax monetary policy past the point of its utility.

The real estate market had been in fast forward since 1997. From 1997 to 2002, the average house price in the United States rose 42 percent. In hot markets like San Francisco, CA, the increase was

almost 90 percent.[17] After the 2002 recession, real estate continued its torrid gait. By 2006, the median nationwide house price reached $221,900, an increase of $100,000 in ten years. As steep as this nationwide rise looked, it masked the true picture. This total included rural and suburban sections of the country where prices remained relatively stable. Drawing attention solely to the more dynamic urban centers, the increase was more noteworthy and worrisome to those with a passing comprehension of the dynamics of an asset bubble. In flourishing markets, such as southern Florida and southern California, real estate prices roughly doubled in the years between 2000 and 2006. Mostly, the rising prices were driven by borrowed demand. "To put the fury that was the mortgage market at that time into perspective, from 2003 to 2005 outstanding mortgage debt grew by $3.7 trillion—an amount almost equal to the $3.8 trillion of total outstanding mortgage debt as of 1990. In three years, the country accumulated what had previously taken over 200 years to rack up."[18]

Standing at $6.2 trillion in 1999, total mortgage debt mushroomed to $13.3 trillion by 2006. For the first time, the nation's mortgage debt exceeded annual GDP. This elevation in prices was not limited to America alone. The United Kingdom, swaths of continental Europe, Australia, and parts of Asia joined the real estate party. In June 2005, the conservative, generally pro-financial sector "*Economist*" magazine wrote, "the worldwide rise in housing prices is the biggest bubble in history." The staid periodical was not guilty of uncharacteristic hyperbole in this instance. The implied warning was that of an unerring prophet.

The financial system inaugurated a dynamic incapable of sustaining itself. After pasting butterfly wings to its back, a huge, elephantine financial sector sauntered onto the runway and dared to fly. By the sheer power of their avarice, banks levitated, defying gravity. For a while, it seemed they had manufactured a miracle. Yet, in determining the long-term consequences of any economic activity, reality trumps wild aspiration. In this instance, free-market myth

could not overcome the fact that things had run aground precisely because the market had been allowed to direct itself according to the logic of its greed. It was not that the vessel did not employ its sextant. It was as if the ship discarded the one it had.

Real estate prices could not remain high and divorced from economic fundamentals. The overall American economy was static for the most part. There was no objective reason for housing values to climb vertically, while all else crawled horizontally. Houses remained the same as they were and remained in the same location they had been. They were not subjects of great improvement or beautification on a mass scale, nor had they come to serve a purpose in the economy distinct from their traditional role of providing habitation for their owners or for renters. They were not magnets inherently capable of attracting economic activity. No significantly new economic or business operations in large numbers had grown beside them. Thus, their value had not risen due to propinquity to increased economic activity or to some newly discovered proclivity to spur productive activity in the real economy. In the end, houses and their economic surroundings had not changed objectively. Thus, there was no underlying economic reason for the massive appreciation.

The real estate bubble could have been prevented had the financial system behaved like the objective, self-correcting mechanism portrayed by mainstream economists. If financial markets were actually geared toward funding genuine demand and markets according to their fundamental strengths and marginal profitability, banks would have lent to the real estate market no farther than the point where expected returns on real estate fell to the same level as returns on investment elsewhere in the general economy. Equilibrium would have been achieved at that point. The flow of investment funds into the market and the upward pressure on real estate prices and mortgages would have stemmed. However, the self-regulating, equilibrium model of the sector did not apply. Financiers and investors thought they had discovered the route to

perpetually high profits. Real estate values and profit margins were stratospheric. Values and profits seemed to escalate the more that money was placed into the real estate market. Through the wizardry of flexible mortgages and because of the vast quantity of money awash in the system, banks wrongfully concluded real estate prices would forever rise. Against this libertine backdrop, the allegedly self-regulating financial system overheated to the point of immolation.

Financial practitioners did not see the financial market as an objective arbiter allocating investment funds to the different sectors of the economy in manner that would maximize aggregate wealth creation. The banks and real estate investors reached a conclusion foreign to orthodox economists. The financial players came to see their sector as the most fecund ground to make profits. Consequently, they decided to decouple the financial sector from the productive sector of the economy with regard to the allocation of the additional investment dollar. The major players concluded the financial sector was better off primarily funding itself. It would no longer waste much time trying to perfectly arbitrate investment among the various contestants in other sectors of the economy. They assumed the innovations in the real estate market would assure that marginal investment in real estate would generally exceed the return on investment in the general economy. In effect, marginal investment in the real estate sector would never be marginal. It would remain premium. Though religiously believed within the financial sector, these ideas were as incongruent as an atheist resident in a monastery.

As mortgage rates fell during the late 1990s and early part of the last decade, the people comprising the traditional pool of homeowners had already entered the market to purchase homes or refinance existing homes at lower rates. By 2002, the number of conventional homebuyers seeking conventional mortgages began to decline. Normal, self-created demand under the existing forms of mortgage financing had hit the first wall. To keep profits climbing, the financial system needed to create new demand. The financial

sector engineered new demand by using innovative means to make eligible those who had been traditionally ineligible for mortgages. The menu of unorthodox mortgage instruments was quickly expanded and thrust upon the public. Banks enlarged the subprime mortgage market to bolster demand, enabling the banks to continue reaping larger profits through high volumes of loan activity.

The subprime market did not create the crisis; it was but a symptom of a more serious disease. The financial sector's reliance on the real estate bubble created the subprime market. Rapid expansion of subprimes gave the real estate market extra ballast, sustaining the steep price climb several years more than it otherwise would have lasted. Yet, a fatal flaw existed in the profit structure that the financial system created. Nominal profits were based on two pillars: rising prices and rising debt. These two trends were ultimately centrifugal. The theory was easy money would create an enormous pool of potential borrowers who would endlessly spike demand for housing. The demand for houses and mortgages would increase prices. As long as prices increased, banks would refinance mortgages. The doomsday trigger of higher interest rates contained in the unorthodox mortgages would be postponed time and again. This meant that almost everyone could buy a house and afford a mortgage because the harsh, concentrated interest payments on the mortgage would never fall due.

However, banks forgot an important fact that would pester them like a hyperactive badger: much of the money they invested was itself borrowed. Banks counted the money they lent as assets. The higher priced the home, the higher the loan amount. A higher loan amount meant a heftier balance sheet. Bigger loans gave the appearance of bigger profits. Yet, there was a catch. Constant refinancing of loans, both subprime and conventional ones, at lower or even delayed interest rates, meant the banks were actually receiving less cash in interest payments relative to the nominal value of the underlying assets. In less delicate parlance, this meant banks waved handsome balance sheets while holding precious little money.

Banks became asset rich and cash poor. However, these increasingly illiquid banks had to pay their creditors and stockholders fat returns or face adverse business consequences. Merely pointing to the balance sheet did not suffice in the long run. People wanted to see profits deposited in their bank accounts and not merely stated in accounting documents. There was a built-in conflict. On one hand, banks needed to suppress effective interest rates in order to inflate demand for loans to pad their balance sheets. On the other, banks needed more income because they needed the cash to expatiate their creditors and investors.

For a period, the banks were able to walk the tightrope by consistently expanding the demand pool. Not only did the banks create the unorthodox alternative loans for new homeowners, they also went to the extent of promoting a vehicle called the reverse mortgage among the elderly. These mortgages were geared toward older people who owned their own home and had built substantial equity via years of paying down standard mortgages. While reverse mortgages were not part of the financial crisis, they constitute further evidence of the lending addiction that had infected the banks, causing them to afflict the unwary public with mortgage facilities unwise and unwarranted from a macroeconomic standpoint.

When the pool dried of consumers eligible for traditional mortgages, recourse to the subprime population served to keep the system afloat. Bringing mortgages to this heretofore-neglected portion of the population yielded a burst of demand. Twenty years ago, people in similar financial circumstance would have been swept from the bank on the wrong end of a broom. By 2002, banks were chasing them as customers. The irruption of demand reflected well on the balance sheet. Yet, the low interest on these loans did not improve cash inflow as much as the banks desired. Still, conditions were adequate also long as more people could be corralled into buying homes. Ultimately, the population could not keep pace with the illogical duality of bank addiction for high-volume, low-interest new lending, on one hand, and the need to improve their liquidity on

the other. By late 2005, demand hit the outer wall. There were no other people to drag into home ownership unless juveniles, newborns, the deceased, and the incarcerated were to enter the market.

When demand fell, values quickly followed. The floor caved on a market that was supposed to have no ceiling. At that point, everyone rushed to cash in before they became cashed out. With this, the banks reversed their institutional presumption favoring refinancing to stave doomsday interest payments. Banks wanted repayment in full. Banks became disinterested in refinancing traditional, let alone, subprime mortgages. The financial houses craved funds to repay creditors and investors made jittery by the declining housing market. The banks demanded payment of the mortgages in full. By this time, the economy had stumbled. Many borrowers—facing layoffs, suppressed wages, or unemployment—could not perform. They simply did not have the money.

By 2007, subprimes represented $1.3 trillion or roughly 10 percent of the mortgage market. By January 2008, when the housing market had clearly declined, over one in five subprime mortgages was delinquent or under foreclosure.[19] The failure rate for all mortgages was close to 10 percent. However, this differential masked a more telling trend. The more recent the mortgage, the more susceptible it was to nonperformance. This observation adhered to fixed-rate mortgages as well, albeit, not to the degree affecting the subprimes. Not only did the price of property covered by subprime mortgages fall, but all real estate, including commercial property, nosedived. Paying a mortgage is a responsibility few people relish. Paying down an interest-heavy mortgage on property of rapidly diminishing value is a financial burden few can long endure.

What happened with the subprime portion of the overall real estate market was predictable. When the balloon punctured, the subprime mortgage market was the first to hit bottom because it

occupied the lowest financial rung. It represented the most vulnerable and last subsector of the real estate market to expand significantly. As with all Ponzi schemes, those last in are first burned when events enter their ghastly turn. Things closer to the fire melt first, but they should not be blamed for the blaze. Likewise, it would be unfair to blame the subprime market for the financial crisis. In other words, the fairest verdict would be the subprime market was just the weakest link in a concatenation suffering unbearable stress at every link.

The crumbling of the subprime market was simply a facet of the overall decline of real estate prices after years of protracted, mindless blitz. Crewmembers in the boiler room will be the first to drown when a ship's hull is breached. It would be uncivil to augment their misfortune by blaming them for the ship's misfortune just because they were the first to perish. A more likely explanation would be that errant navigation by those at the helm led to the ship's demise. The nexus between the fall of the subprime market and the financial crisis was not one of cause and effect. The financial crisis was caused because too much money was invested in real estate. However, much of this money was not loaned directly as mortgages. Much of it was used to trade in mortgage-related instruments. The same impulse that causes the subprime market to proliferate also sparked a ballooning trade in mortgage and real estate derivatives. The securitization of mortgages was done to keep more money spinning in the real estate market, thus sustaining and driving up price levels. This abstraction of mortgages would have occurred without the expansion into subprime transactions.

In fact, the subprime market would not have expanded as it did without the securitization process also being in high gear. The added layer of investment and bank funding that securitization brought was too sumptuous for the financial sector not to indulge itself. The subprime market merely reinforced the utility of the securitization market to the financial sector. Because the immediate interest payment flow on subprimes was relatively low, this provided extra

incentive for mortgage lenders to eagerly pass them to the secondary market where they were bundled and synthesized into MBSs. In return, the banks were paid for these mortgages by the secondary market and MBS investors. This process helped compensate for the low initial payment on subprimes as they became a more important and fast growing segment of the total volume of mortgages.

Even with this increase, the subprime market remained a minor share of the mortgage market and a small percentage of overall losses in the financial sector. Simple math bears this out. As previously stated, the overall subprime market approached $1.3 trillion, with less than one quarter of that amount foundering. Roughly, $300 billion in subprime mortgages were drowning. If this were the meat of the problem, why did the U.S. government, via the Fed and Treasury, feel compelled to provide direct loans and other facilities on the magnitude of over $10 trillion to bolster the financial institutions? The more efficient and less expensive way would have been to intervene directly in the subprime market to shore up the troubled portion of that population. Instead of channeling trillions of dollars to the banks, government's tab could have been limited to approximately $300 billion dollars. The value of nominal assets lost worldwide during the financial crisis approached $30 trillion. It taxes logic to blame trouble circulating around $300 billion in assets for precipitating the loss of nearly $30 trillion in otherwise non-septic assets. At the core of the modern financial system lurks a culprit much more blameworthy than subprimes for the global demise

Derivatives: What Went Wrong With What Went Wrong

The financial system grew too dependent on the real estate market as its wellspring for profits. Real estate was too small a base upon which to place the destiny of the sector. A large superstructure was erected on a relatively thin foundation. The entire unbalanced

structure was bound to be tossed by grave instability after the flimsy base began to crumble due to its inability to generate perpetually increasing demand for real estate purchases. The risky coupling that bound the real estate and financial markets so closely together was the trade in MBSs and other derivatives. MBSs and their cousins, CDOs, essentially are securities created out of the pooling and syntheses of multiple individual mortgages, bonds, or loans. The mortgage derivative was an innovation developed to channel more funds into the underlying mortgage (real estate) market. This device served to increase the transactional volume of that underlying market. The expansion of this foundational market would inure to investors in the upstream securitization market so long as real estate values continued climbing.

In a more traditional setting, once a mortgage was created, the bank would hold the document in its files then sit back to count the days until the installment payments came due. Tons of mortgage documents sat in the file cabinets of local and national banks. Now, mortgages are shipped off to a third party once executed. They are bundled and melded into a single security. The security is sold to investors, infusing banks with additional funds with which to sell more mortgages than under the old system. If things go right, the cycle promotes another cycle. However, no matter how well things seem, they never go completely right.

Although not supposed to happen, mortgages of materially different qualities were bundled together as if they shared the same credit pedigree. Mortgages and other loans were indiscriminately packaged and bundled in MBSs and CDOs to mask the individual weakness of some of the debt instruments. Inferior grade debts were bundled with more solid obligations. The security retained a high-grade credit rating despite the questionable debts also contained in the syncretic document. Unwary investors would tender their money without checking whether the mink stoles they purchased was lined with skunk hair. Prudence would have demanded the securities carry the rating of the less trustworthy, weakest debt therein

contained. However, the investment houses rarely consulted prudence during this heady period. Greed controlled these processes. Greed demanded this acute sleight of hand to encourage the high levels of speculative investment the banks needed to keep the flashy, but rickety, financial system from sinking.

Declining real estate prices were the proximate cause of the shattering derivatives market, which itself was the proximate cause of the global financial downturn. As one fell, the others tumbled fell like alcoholic dominoes after a binge. Derivatives are investment instruments at least once removed from the underlying asset. In effect, a derivative is an investment in an investment. In 2008, the Bank of International Settlements estimated the overall global value of all derivatives at over $650 trillion! In 1995, derivatives were valued at barely $35 trillion according to the Wall Street Journal. Total global GDP was roughly $60 trillion in 2008. Trade in derivatives had catapulted to where its value exceeded the annual global output by a multiple of 10.

Beside the MBS stands the CDS—an insurance contract of sorts. A CDS allows a party to hedge against the default or other possible negative events pertaining to a transaction or asset. For example, an investor purchases a bond in a company or invests in a MBS. In defense against the nonperformance of the underlying asset, bond or mortgage security, the investor purchases "insurance" from a third party. The investor pays the third party a premium. In exchange, the third party agrees to pay the covered investor the difference between the nominal value of the underlying instrument and the diminishing actual value, should the underlying asset suffer a default or other adverse consequence known as a "credit event." In part because the CDS market is an unregulated one, purchasers are not required to have any pecuniary interest in the underlying transaction. This is unlike the regulated insurance sector where a person must have a statutorily cognizable interest before purchasing insurance on another party. In the unruly world of the CDS, complete strangers to the underlying transaction or asset can obtain a CDS.

Moreover, there are no limits to the number of CDSs per underlying transaction or to the number of times a CDS can be traded to other parties.

Because of this lack of regulation, the CDS market is a promiscuous one. The first recorded CDS was created in 1994. By 2003, the CDS market grew to $3.7 trillion. By 2008, the market was between $38 and $60 trillion. (The wide range in the estimated aggregate value of the market evinces how subterranean and penumbral the market is. Its lack of transparency obscures the number of transactions involved and makes valuation of transactions as imprecise as the outcome of a game of chance.) The spiked rise in the CDS market coincided with the mad rush of real estate prices and the hyperventilating mortgage sector. The three formed a profitable trinity that quickly transmogrified into an unholy, pauperizing triad.[20] By 2007, the notional value of CDSs held by the top 25 American banks exceeded $14 trillion, more than the annual GDP. Compare the notional values of the overall derivative and its CDS subset to the relatively paltry sums involved in the subprime mortgage industry. It is obvious which is the more plausible culprit in causing a global downturn erasing well over $20 trillion in nominal wealth.

MBSs and CDSs share an attribute in common. Financial experts heralded both as innovations that would contain and lower investment risks. The lower the risks, the more bounteous the investments became the refrain. However, the instruments did not lower risk so much as they induced a miscalculation of risk. Deceived by the conventional wisdom barked by the large financial houses and parroted by their paid media experts, people walked into these investment hazards as trustingly as new converts at a church revival meeting. These instruments supposedly lowered risk by spreading it around so that everyone had an easily digestible portion. This was fine as long as the market remained ebullient. However, when the weather turned bad, it produced the malign effect of everyone feeling more exposed than anticipated. This was because they had

misinterpreted minimal risk as the absence of risk. If an investor is involved in a few simple transactions where only a portion of personal savings is at stake, the difference between no risk and little risk is immaterial. For an active trading firm participating in thousands of transactions, the difference becomes gaping. No risk compounded by no risk remains no risk. A little risk compounded several thousand times over, becomes a menacing presence, particularly if the risks involve borrowed money.

In a distant land, the town burghers gather to discuss the state of their hamlet. One man rises from is chair to state that the plague comes whenever rats congregate in large numbers, as they often did in the town's sewage system. One person advocates the destruction of the rodents. Others respond the rats are useful allies against the poisonous snakes that once invaded the town on a regular basis. The rats also abet garbage disposal by eating much of the refuse. One man puts forth a novel idea: they should parcel the rodents among the different households, with no one home having more than five. This way, the packs of rodents will be sufficiently limited in order to minimize disease, while each household would have its individual snake protection and garbage disposal unit. The rest of the gathering cheers the intelligent suggestion. In little time, every home has at least two rodents. Many have five. Some people pay neighbors to "borrow" their rodents for temporary periods; possessing numbers in excess of the maximum, these people attain the enviable social station of being "rat rich."

Everyone is happy for a time. Then, a case of the dreaded fever appears five years later. Overnight, the rodents go from valuable pet to pestilential threat. Many release their once beloved rats into the sewers. Some people flee their homes. Others kill the rats but do not know how to discard of them. A few kill their neighbors who contract the disease. Still others establish cordons by killing healthy neighbors before they get the disease. Panic abuts panic. Utter pandemonium grips the town and its two-legged inhabitants. When an itinerant physician comes through, the ashamed survivors tell

him their doleful tale. He concludes rodents were the town's second most dangerous problem. Uppermost is his conviction that town leaders had gone mad beforehand.

The above tale highlights an important difference between short-term and long-term risk-taking. Something that is highly improbable on any given day encourages significant short-term risk-taking. This exposure is reasonable. However, if the consequences of failure are catastrophic, extending risk-taking into the long-term is folly. That which is improbable will eventually come to pass if provided sufficient time.

This point is important because investors began to abuse MBSs and CDSs. They stopped using them as instruments of insurance and began to use them as devices for speculation and arbitrage. While the global value of the CDS trade exceeded $60 trillion in 2007, the value of the assets underlying these instruments was a fraction of that amount. There is no logical reason to insure an asset far in excess of its value. The amounts in excess imply high levels of speculation. The CDS became a veil for naked betting on the underlying asset and sometimes on other naked bets on the asset. People with no direct interest in the underlying asset entered into the CDS scrum, one side betting the instrument would perform, while the other side wagering the opposite. This type of betting has two great problems. The underlying transaction is likely to be of some net benefit to the economy. If successful, the base transaction will benefit both investor and the investment recipient, as well as the constellation of beneficiaries proximately or indirectly tied to the recipients. However, the world of the CDS is inherently a zero-sum one. If one side wins, the other side must lose. That is the inherent nature of this or any wager. This is not economics. It is gambling.

As such, the CDS does not expand the real economy no matter the amount of money involved. It merely shuffles or redistributes money. For the individual investor, this might be exciting. For the macro-economy, it is a lot of frenetic activity characterized by little

forward economic progress. The more that funds are diverted into this exciting but static game, the less money is available for investment that can actually expand the economy's wealth perimeters. The CDS market encourages misapplication of investment capital by directing it toward unproductive speculation. Some will argue that it is salutary to reward those who correctly guess right on hedging against a financial transaction. However, the argument can only be voiced by a mountebank or someone intimately involved in this form of financial speculation; the two aforementioned categories may be the same thing in this instance. Guessing right on whether a financial transaction will stall or default has little positive connection to the type of economic productivity that generates items of real and tangible wealth. That a person runs a successful betting house does not mean sentient people should relinquish the keys to the economy to that lucky person's care.

Betting correctly does not ensure the winner will invest his profits wisely. Flush with the thrill of the successful hunt, the hunter is more likely to hunt again. The gambler is more likely to gamble again because he believes he somehow controls the odds. The CDS market becomes a "crack house" for those addicted to financial speculation. What this does, on the large scale, is lower the productivity of investment pertaining to an underlying enterprise or transaction. For instance, imagine $1 directly invested in a corporate bond issued by a certain manufacturing enterprise; but $2 are tied to several CDSs assuring that dollar bond. The dollar helps the company increase production by a certain percentage. Yet, to the overall economy, that increased production comes at a price of $3 because of the $2 tied to the nonproductive CDS. This situation is like being placed in a rotunda comprised of mirrors. Each mirror contains the reflection of a man. The vast number of mirrors presents a vast number of reflections. If one counts the reflections, he believes the room houses a battalion. However, there is only one soldier. All else seen is but a function of the nature of the mirrors—it is but the reflections of reflections. The network of CDS and other

derivatives have that reflective quality. Investors and the entire system mistook mere reflections of money for money itself.

The greater the number of derivative investment bets stacked upon the underlying transaction, the more unproductive the underlying transaction becomes to the overall economy. While speculators may flock to CDSs, this compilation of unproductive investment on top of productive endeavor drains the economy and represents a vast misallocation of resources. To the extent that derivatives represent real money and not fake valuations, the productivity of all investment dollars is undercut because the aggregate amounts used as indirect (derivative) investments are not justified by the relatively low marginal increase in actual productive output or in any slight increase in value of the underlying transaction or asset produced by the derivative investment. Should the underlying transaction itself be another derivative bet, this caution about malinvestment is more apt because the underlying transaction is a static one that merely redistributes money without any increase in actual real economic output.

A self-perpetuating loop of malinvestment is created. The high volume of CDS betting on certain bonds and mortgages is a false attractor. It spurs the creation of similar underlying instruments upon which another round of CDS betting can be unleashed. Being children born of the marriage of greed and speculation, both the new underlying transaction and the new CDS diminish in quality the more the loop repeats itself. The loop spins increasingly faster, consuming an ever-expanding share of the finite private investment dollar available, thus further depressing the productivity of all aggregate investments. This is what transpired in the global real estate market. The conventional wisdom that property values would always escalate not only obscured the weakness of the mortgages being sold but also meant that the superstructure of MBSs and CDSs would collapse because of the dramatic price enervation that occurred within their foundation, the real estate market.

Making matters worse was the fact that everyone getting into the CDS market considered himself a sophisticated investor. Fond of playing every angle, these investors outwitted themselves. They betted and traded CDSs, CDOs, and MBSs multiple times with different parties. A complex network of interconnections was built where everyone betted for and against the same underlying transaction. These players borrowed from and loaned to each other. What occurred was a febrile, incestuous orgy of speculation surpassing any that came before it in terms of complexity and volume. Wall Street degenerated into a financial Sodom and Gomorrah, where license was the order of things. Rectitude was ostracized, while only the most egregious acts were condemned.

Every major investor functioned as the house and the gambler simultaneously. Yet, each player thought he was solely playing the role of the house, that he was always placing the winning bet. Rarely do sane minds enter a wager hoping to lose. Even more rarely does one enter into many bets and remain sane. Because all thought they would win, they made too many bets. It all worked well until enough people realized they had drawn the weaker hand more times than anticipated. They began to cash out of the game. Worse, some started making even more outrageous bets in hopes of recouping unexpected losses. They and everyone else soon discovered there was not enough cash to cover all bets. The house was massive but largely empty. So was the vault they thought was an endless repository of easy money. They had been using fake money to cover real obligations. They all had forgotten an important maxim: You may bet with fake money or with funds you do not have, but you must pay your debts with the real money you have at hand.

Those who thought they had bought reliable CDS insurance covering an investment discovered they had paid money in vain. Their counterparty insurer lacked the liquidity to cover the losses incurred when asset prices fell. The investor experienced a compound shock. First, the value of the underlying asset plummeted, causing a loss of net worth. Second, the CDS he purchased was

worthless paper that provided no compensation for the diminution of the underlying asset. The investor had paid twice for nothing. When investors began to realize this might be their imminent fate, they rushed for the exits, cashing in their dubious investments for whatever they could get so that they could repay the loans taken to fund the investments. This caused assets prices to tumble with a voracity that smacked of moral retribution against the profligacy of the times.

Because of its nature as an instrument based on the performance or the value of an underlying asset, CDS valuation is highly subjective. It is akin to trying to view an object through a looking glass covered by a veil. A party places his own valuation on the thing and records it on his balance sheet. Primarily because these instruments are not traded on an open exchange, the market cannot objectively measure their value. There is no failsafe should things fail. More importantly, parties on both sides of a CDS manage to account for the transaction as augmenting their wealth—as either an asset or revenue. That both sides of a bet cannot simultaneously win seemed to escape them. Their minds had sailed far past Las Vegas, where a bet remained a win/lose proposition, to dock in financial Wonderland, where the cake grew with the eating of it.

The practice of both sides of a CDS claiming victory exacted its costs on the system. To the extent that this dubious accounting took place, the value of the CDS became fractal. The entries made on the balance sheets of the counterparty or counterparties were considerably larger than their real functional value. For example, if both sides to a CDS claimed the transaction as increasing their wealth, then the real value of the CDS would fall in proportion to the difference between the total increase claimed by the two parties over and above the genuine increase that should have been claimed.

For the sake of explanation, we have developed a very simple example using amounts and comparative gains between parties to a CDS transaction that would be unlikely in real life. While the

numbers used do not reflect Wall Street reality, the principles contained in the example do reflect that reality. Imagine that the two sides to a CDS both claim an augmentation of $100 because the notational differential payout on the underlying "insured" instrument was $100 as was the CDS premium if fully paid. Each believing himself $100 richer, they then feel at ease to participate in additional financial activity commensurate with the perceived monetary gain. Even if the real value of the CDS is $100, that value will dissipate because the two parties are taking on additional risks and obligations befitting $200, instead of risks appropriate to half the amount.

Risks appropriate to the false larger amount compress the utility of the smaller truer sum. If a person owes a debt of $60 and holds $50 toward payment, he is substantially on his way to financial redemption. The $50 looms important. He pays the money then looks for more to make his redemption complete. However, that same $50 becomes the acme of futility upon discovering the debt is really $1 million. The $50 note is of no material use; he retains the $50 yet slides deeper into the morass.

A massive reduction in value took place on most CDS and other derivative investments when the crisis struck. This reduction, significant but imprecise because derivative valuation was intrinsically imprecise, steepened the speed and depth of the slide. Millions of inflated transactions resulted in the reduction of billions, then trillions of dollars in value. A great divergence grew between the nominal and true values of CDSs and other instruments. The speculative system worked as long as a minimal number of bets were required to be paid. It was inevitable that a critical mass of payments would be reached at some point because too many bets were being placed by investors who assumed their positions were stronger than they were. Once that critical number was achieved, the hot air escaped from the system, causing it to deflate like a churlish dirigible.

By trying to invent more value, derivatives players, particularly those in the CDS arena, lowered the value of what they had. In so doing, they shortchanged themselves and the economy. These investments had the opposite effect of what was intended. The protracted recycling of easy money founded on easy credit created a false liquidity. It obscured the reality of high debt; this reality is a financier's ultimate constraint and greatest fear. This mirage of illusory liquidity allowed speculators to function and create more obligations and transactions even beyond the point where the speculators should have been sidelined because they were technically insolvent. Creating the illusion of prosperity and money where there was none, the investments led people to pursue actions consistent with a level of nominal wealth that each investor thought he had but actually did not. These decisions were incongruous with the level of the investor's genuine wealth. People took on risk as if it were riches and gave away nominal riches as if they were risks. They ate rabidly not realizing the food they consumed would malnourish them the more they supped. Investment became the steeplechase to impoverishment.

There was a ridge with a most scenic view of the ocean. Everyone dreamed of building his home on the ridge. The drawback was that the ridge sat atop a seismic fault. No earthquake had occurred in generations. The probability of one was considered low. Thus, an intrepid investor offered insurance policies to those who would build their homes on the ridge. He had many takers. From the proceeds of the policies, the investor built his own mansion on the ridge. His was the grandest. For years, all enjoyed the picturesque view and fine life. Everyone forgot about the danger, and the investor forgot about his liability to the others. One day, the sad event took place. The quake came with pent-up fury. It razed everything. Doubly ruined was our intrepid investor. Not only did he lose his palace, he was indebted to pay for those homes he had insured. Yet, there was no money to rebuild because he had squandered the funds on the mansion just lost. In a similar fashion, the CDS gambit led to the ruin of many.

A Word about Fraud

It is sad enough that the 2008 financial crisis was the product of errant financial theory and practice. Making for a more disturbing tale are the fraudulent practices many financial players deployed to pad profits. In so doing, they brought about a near apocalypse. The seduction of applying loose standards quickly led to the seduction of using fraudulent ones. Once begun, the slide would not stop at mere laxity. It continued into the vale of illegality.

In the real estate market, many issuers went from tough mortgage underwriting, to innovative mortgage instruments, then into wanton fabrication of documentation of borrower creditworthiness in order to keep loans churning and balance sheets padded. Years before the crisis, the Federal Bureau of Investigation (FBI) warned that the mortgage industry was rife with fraud and corrupt practices. The FBI cautioned that the malpractice was conducted by financial houses intent on inflating their short-term profits by issuing mortgages to almost anything breathing on almost any piece of real estate. Mortgage-backed and other collateralized securities carried high ratings provided by supposedly reputable rating agencies that did not want to lose business by applying stringent standards to the investment instruments. The rating agencies winked, nodded, and then stamped "AAA" on paper better suited to line a bird's cage.

Because they too profited, the raters persisted in grading mounds of trash instruments as if they were pedigree investments. Investors rushed to these securities thinking they had discovered today's El Dorado. They were duped. The clean, marbled hallways of the large financial houses revealed themselves to be the bowels of a noxious financial system. Meanwhile, players in the derivative market knew they were inflating the value of what they held. Banks and other large institutions resorted to a vast menu of accounting gimmicks to paint a landscape of profitability quite divergent from

the illiquid tundra into which they had ventured. Too many people, for too long, misrepresented the truth in order to make a dollar.

Fast money made the world go around and fraud made the money go around faster. Insiders cavorted with deception and misrepresentation in order to inveigle money from hapless investors by urging them to invest in securities in the long-term while the insiders made elegant profits selling on the short. Financial houses encouraged clients to invest in certain securities while those very houses were betting against the same securities by jettisoning them from their portfolios. This was more than a conflict of interests. It was an outright swindle. Firms used client demand to bump up prices so that the firms gained handsomely when they sold short. The clients were left holding a sagging bag of overpriced securities.

By October 2010, the fraud started to unravel in public ways, despite attempts by the financial sector and pliant government regulators to keep it veiled. It became apparent that the procedures used to develop the MBS market were fraught with abuse. The majority of mortgages created in the past five years were not the traditional fixed rate mortgage between a borrower and a lender whereby the lender maintained possession of the mortgage. Most traveled through a maze of transactions that revealed much of what went wrong with the American financial system. This labyrinthine mutation of a straightforward lending structure contributed substantially to the 2008 financial crisis. The process was dizzying.

Instead of going to a traditional bank, the person seeking a mortgage would contact a mortgage originator. The originator might have been a bank but not necessarily. If not a bank, the originator had a relationship with a bank that would provide the loan. Of course, the originator derived a fee for each mortgage executed. This was where the wild ride began. The mortgage would not remain in the hands of the first lender. In order to make quick money from the mortgage to pad the firm's quarterly profit statement and to obtain new money to make additional loans to further elevate short-term

profits, the lender would sell the mortgage to another party. At some point, a firm would bind, into a single instrument, a number of the individual mortgages it had purchased. The component mortgages were of varying degrees of creditworthiness. The composite MBS was thus a mongrel, a Frankenstein-like patchwork of the solid, the suspect and the utterly dubious. The firm would sell the MBS to investors who might resell the security. The resale might repeat itself several times.

Perverse incentives described this system. Things were structured so that each intermediary actor along the chain of custody was paid in full at the point where they entered the dubious cavalcade. Thus, the intermediaries' incentive was focused on promoting mortgages of any quality since the intermediary would be paid the same reward for a bad mortgage as for a good one. Moreover, they suffered no penalty if a mortgage went sour after they performed their service and received their fee. These parties were more concerned with volume than with quality. They also earned bigger fees the higher the mortgage value. Thus, these mortgage-mongers padded the price of homes so their percentage commissions would be a plenteous yield.

For the recordation of mortgages, the banking sector bypassed the traditional public recording systems mainly operated by county governments. The financial houses had migrated to a private system, the Mortgage Electronic Recording System (MERS), where they could transfer the documents among themselves without paying the taxes and fees associated with traditional filing and recordation processes. This deprived local governments of billions of dollars in revenue. It also put the recordation process in the hands of an entity that was more interested in the quick transfer of documents rather than their accurate recordation. This system was destined to be abused.

America now faces an unparalleled predicament. As of October 2010, serious payment delinquencies threatened the ownership of more than 2.5 million residences. More than 2.3 million of those

homes were subject to legal proceedings. In September 2010, homes falling to foreclosure sales exceeded 100,000 for the first time in history. By the end of 2011, a survey by the Mortgage Bankers Association indicated that roughly 2 million homes nationwide were still subject to some type of foreclosure proceedings. To accommodate bank foreclosure, Florida established an accelerated process where the entire foreclosure procedure could be completed in a few minutes without the homeowner having fair opportunity to offer a legal or factual defense against the allegations against him. Whole law firms devoted themselves to nothing but churning out foreclosure suits. The courts allied with the financial sector to trammel the once-cherished property rights of the individual landowner. Financialism had started to undermine the tenets of property law that buttressed the American political economy and that had been in existence for over half a millennium.

Not so fast, not so fast! Many of the foreclosure proceedings were flawed. Forty states initiated probes into the rush of foreclosures. Some halted foreclosures proceedings in their jurisdictions. It has been difficult to gauge the exact depth of the problem. Still, confidence in the judicial system has waned due to financial greed. Filing suits on behalf of the mortgage holders, many attorneys fraudulently swore to thousands of affidavits asserting possession of mortgage documents they did not have. Other attorneys attested to material facts they had no way of knowing. Foreclosures occurred although the plaintiff could not produce original mortgage documents. There have been material discrepancies regarding the amounts owned and the calculation thereof. Homes were foreclosed although the plaintiff-lenders did not hold the mortgage on the property. Homes were taken although no mortgage debt was due. Some people would call this stealing. Some courts agreed. The Massachusetts Supreme Court rendered a decision that could potentially invalidate MERS and thousands of foreclosures in that state concluded based on MERS.

Fighting back against those seeking justice, banks pushed for federal legislation giving them broad leeway to foreclose despite problems with legal documentation. With arm-twisting by the banks and the federal government, a grossly unfair settlement was reached between the banks and state governments in 2012. For a payment of $25 billion, the large banks were basically absolved of prior improper foreclosure practices, including the wrongful confiscation of homes belonging to innocent owners whose payments might not have been delinquent or who might not even have owed any payments.

The settlement amount is paltry considering the extent of the malpractice might affect close to a trillion dollars worth of mortgaged homes. Moreover, the settlement insulates banks from legal culpability for essentially stealing homes in the future as long as the number of wrongful foreclosures remains below one percentage of overall foreclosures. Pursuant to this workout, the banks continued their direct assault on centuries of established property law and rights. That banks, usually opposed to government interference with private property rights, would encourage the monumental and sudden abridgement of these property rights shows how far banks have changed their role in the political economy because of their perverse affection for money.

Where greed strides, injustice walks. This state of affairs is largely due to MERS. No matter the fine name given it, MERS is a massive institutional fraud committed by an entire industry. Had one individual attempted to do with a single transaction what MERS does with the near totality of mortgages, that person would liable for civil misrepresentation or fraudulent conveyance; quite possibly, he would be hauled before the local magistrate on criminal charges. Because the entire banking industry has acted improperly, general society condones the misconduct; those who question it are deemed troublemakers or are blacklisted. Justice has been turned on its head. An age-old impropriety has become today's "legal and proper."

Times of easy money are usually periods of both subtle and base criminality. The financial crisis was no exception to this maxim. The players increasingly misbehaved as the good times rolled; however, the good times never last forever, particularly when they are unfair to all but a few.

The Moral of the Story

The 2008 crisis was triggered mostly by the decline in real estate prices. The crisis would not have been as deep if not for the financial system's diathesis toward massive speculative investment. At the bottom of it all was a distorted financial system that placed the productive economy in ultimate jeopardy of depression. The crisis revealed a principle we must understand. This crisis was built with debt as its foundation. There it still stands. In the United States, the creation of new money remains largely the creation of a new interest-bearing debt. Thus, the crisis remains with us.

When the government seeks money above its revenue intake, it must issue an interest-bearing bond to obtain it. On the private side of the street, banks create money from nothing when it comes to advancing a loan to a customer. These processes are intended to create debt in general society to enrich the lender financial community. However, this rough equality between debt and money is destructive structural economics. It has placed America in an "affluent" debt trap. Structural economic analysis suggests a large, rapidly expanding national financial sector cannot harmoniously coexist with a mature, slow-growing productive sector. One must cede to the other. The dynamics, rules of behavior, values, and discipline of the stronger sector must encroach upon the other. In America's case, it is easy to see which sector experiences recrudescence and which suffers retreat. The perpetually enlarging financial sector created a prolonged period of nominal economic growth, mostly based on the climb in the value of nonproductive financial and real estate assets. The increased values were

predicated on ballooning aggregate debt. The corollary to this is that the larger the financial system, the larger the aggregate debt.

At a certain point, too much debt caused the rise of nominal values to plateau, then decline. The United States had been badly positioned for a long time. The enormity of the American economy, for a time, had effectively masked the sad fact that the accretion of the financial sector had eroded the stanchions of the productive sector. A more insightful national leadership would have fostered the productive sector and protected it from this harm.

The productive sector expands the national inventory of tangible goods constituting tangible wealth. Lenders, on the other hand, profit whenever another person assumes debt, regardless of whether that debt expands the economy's productive capacity. Yet, most money is created by loans generated within the private banking system. Most business activity is dependent on this loan activity. This means the fate of the economy largely rests on the aggregate effect of decisions made by bank loan officers. When making their decisions, these loan officers give no thought to whether their decisions will improve the general economy or any part of it. Their decisions focus on the probability the borrower will repay the debt. If the borrower looks like a good bet, the loan will be made no matter the adverse or positive consequence for the economy. Thus, the direction of our economy is left to what some people devotedly refer to as the splendid "invisible hand." The bad thing about that hand is that it seems to be spinning an invisible roulette wheel to determine the fate of an economy too complex to be left to fortune.

A small group of large financial houses profits greatly during periods of easy money and rapid debt creation. At a certain point, the interest due on aggregate debt outpaces real economic growth because too much borrowed money previously had gone into speculation. Debt increases and with it, the congenial effects of real growth are eliminated because the rate of growth is inferior to the

expansion of debt. The productive sector becomes too weak to spur growth to levels surpassing the acceleration of the debt level. The only way to maintain one's economic place is to swallow more debt.

Accumulation of debt becomes less a rational act than a desperate necessity. This futile assumption of debt to maintain affluence and satisfy preexisting debt can only lead to disaster. The bad thing about debt is that its assumption is certain, but its future payment is always unsure. Debt is a combination of a present lack of money and present desire for something valuable, with a future promise to repay. Again, we may be sure of the first two but the promise to repay remains shrouded in the future. Some level of debt is needed; there is little investment without debt and there is little growth without investment. However, an aggregate debt burden that exceeds the productive economy's ability to carry it becomes a detriment to that economy's long-term stability. Thus, the economic utility of transactions based on debt creation is more uncertain than the standard purchase and sale of goods and services. We have a more accurate understanding of the value and utility of a current transaction than of one not fully consummated until some future time. The farther into the future the debt obligation matures, the more uncertain becomes the utility of the transaction. The future income calculation based on the assumption of a debt today is done by estimating the future direction of many things—labor costs, prices of goods and inputs, political stability—that, in truth, cannot be precisely estimated. As such, the greater the number of transactions built on long-term debt means an unstable future economy.

The uncertainty latent in an overly indebted economy logically should drive up interest rates, thus slowing the accretion of debt. However, this escalation in rates and concomitant slowing of debt accumulation do not always appear as and when logic suggests they should. Often economic actors are motivated by factors other than logic. Sometimes the belief that profits are always to be had by almost any investment can fog a single investor's judgment and that

of the entire financial market. Even a traditionally stolid central banker can become so infected with this fever that he suppresses interest rates below the level and beyond the time where such action has any justification, except that he has strayed from the path of restraint. To keep from being utterly lost and alone, he joins the thoughtless, frenzied parade of those who think they have constructed an economy without horizons, without limits, without losses, and without rules.

The more a lender, whether a central bank or private firm, is deluded into thinking that all loans will be profitable, the more he is inclined to dispense loans on the cheap. Thus, we can have instances of a rush toward increasing debt fueled by suppressed interest rates. Again, this combination is based on the illogical assumption of an ever-ebullient financial system where almost all investments blossom into fruitful returns. The borrower keeps borrowing not because he wants more debt but because he has to in order to maintain his relative position to all those other people who seem to be borrowing without default and to be profiting without failure. Regarding the lender, the more money at his disposal, the more he is willing to lend to riskier ventures in order to earn more money. Banks and financial houses reaping significant debt payments begin to lean toward speculation.

Yet, even in times of cheap money and easy debt acquisition, the collective desire for extra debt is always more finite than the human desire to have the goods that money acquired through debt may purchase. At some point, his debt burden scares the borrower. Meanwhile, the once freewheeling lender becomes skittish upon realizing he has lent out too much money when compared to the actual interest payments he receives. He stops lending at high velocity. Those from whom he borrowed are dunning him because their lenders are pestering them. At this point, reality awakens. The system is choked with debt. After following the mad drum major onto the merry bridge, people discover the structure does not cover

the full expanse of the river of debt. The drop comes. This is the sad end of a financial system built on unproductive speculation.

The 2008 crisis demonstrated that the financial market is not a self-restrained adult, but an *enfant terrible* in need of constant parental guidance. Lax regulation, oversized financial institutions, and investment instruments of dubious utility combined with a frenetic business culture in need of barbiturates to produce the excessive borrowing that bowed the system. The financial system is a complex one that requires the balancing of a multitude of competing objectives to operate properly. Over the years, America permitted the profit motive to cancel important considerations, such as stability, transparency, legality and the utility of the financial system to the general economy. A system given over to a singular obsession with profits becomes a place where profits become scant due to the incessant hunting of them.

The chase for paper profits erupted into a multitude of sins, the greatest of which was that of the financial system altering the structural balance of the political economy. The financial system shed its role as the facilitator of capital to fuel growth of the real economy. The financial system repositioned itself as the preferred destination for investment, thus depriving the real sector of much needed funds. Yet, man cannot live on money alone; in the end, money is just paper or intangible electronic signals passed between computer terminals. Man still needs tangible things. America fell into crisis because it exalted profit over production. It valued the trade in elaborately printed documents over the production of material goods necessary for human well-being. America was not alone in this. Much of Europe succumbed to the temptress. This is why many European nations are still being tossed by the harsh breakers of excessive debt. In its own way, Nigeria also made itself vulnerable.

Chapter Two

2008 Nigerian Financial Crisis: How Too Much Money Becomes Too Little

The man pouring a cup of water into a bucket is an optimist. The one pouring a bucket of water into a cup is the fitting recipient for whatever insults that follow.

That Nigeria and the United States are similar is an unorthodox opinion. Upon hearing the odd declaration, most people would earnestly search for the nearest exit to escape the maniac and his lunatic ravings. Etched into their furrowed brow would be the fear that his insanity might prove to be both highly contagious and permanent. Yet, before you consign this book to the incinerator, we hope a dose of curiosity convinces you to render it a full reading. Stark times sometimes reveal the uncommon remark to be an enlightening one. For those of you who do not discard this book, we thank you and hope what follows warrants your forbearance.

These otherwise disparate nations are alike in important ways central to the theme of this book. Both possess a sense of national manifest destiny, the articulation of which often strikes outsiders as arrogant, sometimes unintelligent, swagger. As part of the physiology of their national characters, both countries possess a keen nose for sharp profit. This peculiar deification of money, joined with the creed that long-term prosperity can be had by placing everyone in hot pursuit of short-term advantage, has widespread economic consequence. It creates a mindset that deludes policymakers and major financial players into relying more on wishes and serendipity than on wisdom and care in the management

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and guidance of their economies. The moneyed elite end up believing the pursuit of profit is virtue itself. Thus, all consequences resulting from this chase must be ordained by the sacred writ of the invisible hand.

The sprint to accumulate money is more acute in Nigeria than in America. This is an extraordinary feat. In Nigeria, the chase has taken on an intensity that makes it the national pastime. It has become the obsessive *idée fixe*, leaving few immune to its seduction. The intense desire to become rich pervades every nook and hamlet. People doggedly pursue short-term financial gain, mostly in proud, willful defiance of the long-term consequences. Acute fixation on things pecuniary led this African nation down the same pitiable path that America traveled in 2008. Love of money is said to be the root of evil. It was the love of the love of money that rushed this nation to a point exceeding financial carelessness. Both Nigeria and America gulped of the silted chalice by letting their undue affection for the short-term, rapid accumulation of currency debase their economies. Their financial sectors' dogged pursuit of maximum profit strangulated the genuinely productive activity needed to sustain those economies.

That two nations, unalike in so many other ways, would arrive contemporaneously at similar dead ends is not coincidental. It demonstrates two facts: 1) the strong interconnectedness of the global financial system and 2) the inevitability of an economic crash when national economic policy and practice exalts unbridled financialism over aptly regulated capitalism.

History in a Nutshell

Like America, Nigeria was a British colony. Unlike America, it was not a settler colony established by people reshaping a new land into something they planned to make their home. Nigeria was conquered space, ruled by a small British elite with little desire to make themselves part of the land or make it part of them. These colonists were not sojourners looking for their place in the world.

Theirs was a one-dimensional pursuit. They were looking to enrich their distant island home. They were commercial explorers on assignment, seeking to obtain raw materials on the cheap in order to drive the pistons of the British industrial machine. In Nigeria, the British policy was to establish the minimal level of amenities and infrastructure needed to conduct the desired extractions. They did nothing more and often less than this.

Consequently, crass profiteering by the few while ignoring the destitution of the many has a long pedigree in Nigeria. This behavior was born in the mean cradle of colonialism. Sadly, it remains Nigeria's most resilient model of political and economic conduct. Once injected into the national character, it would prove strong enough to survive its colonial upbringing to become the chevron of Nigeria's political and economic elite.

For much of the colonial period, Nigeria as presently configured did not exist, except in its component parts. Much of what formed northern Nigeria was placed under the corporate charter of the Royal Niger Company in 1886. The corporation transferred control to the British Government in 1899; the following year, the area was dubbed the Protectorate of Northern Nigeria. In 1906, the Protectorate of Southern Nigeria (formerly the Niger Coast Protectorate) and the Colony and Protectorate of Lagos merged under the name of the former. This was an intermediate step toward implementing a colonial policy to unite the protectorates. On January 1, 1914, the northern and southern protectorates were amalgamated. Lord F. Lugard became governor general of the unified colony. (The title "protectorate" had more than an ironic bent. Even with the advantage of 100 years of hindsight, the question, "Who actually was being protected from whom?" remains unrequited.)

Lord Lugard occupies a special place in Nigerian history. Not only did he unite the protectorates, his wife was the clever wit who coined the name of the country. The name was derived from the region's dominate geographic feature and transportation artery: the

Niger River. The name would be one of geographic location, not national identity. The creation of Nigeria would be by official colonial, not by organic political, development. Nigeria was not an affirmation of an extant national identity. It was founded as a matter of administrative convenience to help the colonists rule more efficiently and less costly. The combination of sundry peoples into a supra-identity beyond the ethic identities they knew was a consequence, not an objective. The land space became known as Nigeria but the people inhabiting it primarily still saw themselves as members of one of the over 250 ethnic groups inhabiting the land space. The colonists did not encourage the creation of a national identity. If at all, they discouraged such a thing as inimical to their interests. The colonists preferred that the various peoples remain divided so ruling them would be easier.

To this day, ethnic considerations take primacy over national identity in the lives of most Nigerians. The lack of national identity foments a competitive mentality that lends itself to economic fragmentation and an excessive focus on short-term profit maximization at the expense of the durability of the nation. By too many minds, the nation is still thought of as something disposable.

Lugard was the father of Nigeria but not the type of parent a good nation would want. Lugard viewed Blacks as an inferior caste to be herded like sheep, not governed as one would a civilized and great people. He treated Nigeria as if it were the offspring of meretricious conduct. With such an ambivalent, ungrateful father, Nigeria would have fared better as an orphan or as a nation that had given birth to itself.

From 1914 to 1960, a few piecemeal reforms were enacted providing modest versions of local self-government. A unique form of nationalism grew impatient with colonial rule. Nationalists sought independence as Nigeria, not its component parts. However, these national leaders were as suspicious of each other as they were of the British. Thus, people maintained one watchful eye on the British and

the other eye on leaders from different ethnic or regional groups. During this period, the North, South, East and West grew no closer together. National identity remained a much weaker link than ethnic affiliation.

After World War II, the independence movement gained pace, but did not resolve this profound internal contradiction. With Britain economically battered and its national spirit enervated by the remarkable exertion needed to pull victory from the jowls of defeat, the once powerful empire nation was no longer interested or strong enough to maintain its vast colonial holdings. The empire had become an antiquated luxury. Although agitation for independence grew, northern and southern politicians had different timetables for the fateful evolution. Less economically and educationally engaged with the colonial metropolis and rest of the outside world, the isolated, but politically monolithic, North sought independence at a slower pace. The North wanted time to close the development gap between it and the more westernized South. The North lost the battle regarding the velocity of independence but won the war as to the nature independence would take.

Although the North could not insulate itself from a quicker than desired independence, it did insulate itself from the South's greater economic clout and educational advantage by the governmental form Nigeria would assume. The new nation would be a federation of regions that the North would largely control due to the North's greater internal political discipline. This discipline allowed it to function more as a coherent political bloc than did other regions of the nation.

On October 1, 1960, Nigeria became independent. Although many people sacrificed and personally endured hardship for this reality, independence was not forged on the battlefield. It was not the result of war against an external force that would meld divergent peoples into one via the crucible of violent survival against a feared threat. It was an independence won by petition, negotiation, and the

languidness of the colonial ruler. During this process, Nigeria's founders bickered amongst themselves as much as they did with their fatigued and fading masters. Nigerians rightfully celebrated independence, but should have done so with a sober mind and diligent eye toward the future. It was both a good and bad thing that independence came without much fighting and violence. No one lost their life that day, but an auspicious beginning it was not. The new nation had not experienced the external threat that might have melded its disparate sections into a united whole. Ironically, the violence that might have occurred during an independence fight loomed just around the corner once the nation gained independence. In the post-independence era, the competition would manifest as factional and ethnic rivalries. As with most complex endeavors, the taste of independence was not pure. It would be bittersweet.

Political upheaval in the Yoruba-dominated Western region erupted in 1962, presaging bleaker moments. Differences between progressive and conservative factions in the Action Group erupted into open hostility and violence. The federal government intervened, imposing a state of emergency favoring the conservative faction. Federal action was too late and too partisan. The falling glass had already shattered upon the floor. Things worsened. Elections held in 1964 and 1965 were flawed, further undermining the federal government's credibility.

The fateful crack came in 1966. A military coup ended the lives of the federal prime minister and the premier of the Northern Region, both Muslim northerners. The perception that the coup was engineered by a coterie of mostly Christian Igbo officers gave the putsch an ethnic and religious hue. A countercoup and lethal anti-Igbo demonstrations in the North precipitated a crisis culminating in the secessionist Biafran War. Attempting to segregate the southeastern part of the country, the Biafrans sought to consecrate their region as a new, Igbo-dominated nation. The war was one of three events shaping the vital contours of post-independence Nigeria. Scores of thousands died as a direct result of the fighting

Well over one million people—possibly as many as three million—perished from starvation, illness, and the other depredations sadly attendant to wars of national cleavage.

By 1970, the war ended. Secession had failed. Although the victors acted with laudable moderation by not imposing a Carthaginian peace, psychological scars ran deep. As with most invisible injuries, these have proven stubborn to heal. Igbos still tote a sense of victimization, of being political outcasts. Unforgiving members of other groups view Igbos begrudgingly, citing the war as reason to question the stability and reliability of this group. Stark lessons distilled from the war keep Nigeria from allowing ethnic competition to push it over the brink again. These same lessons also keep ethnic groups wary of each other. In a strange way, lessons from the war hold the nation together, but also keep each bloc or group at arm's length from the others. The war enforced a perspective wherein political actors mainly operate on a plane beneath the national perspective.

The politics of sub-national identity is the fulcrum upon which much is balanced. This fosters a mindset where one group's gain is seen as another's loss. One group's lack is always perceived as evidence of another's affluence. Every group thinks it is unjustly marginalized and impoverished because of the unjust enrichment of a rival group. Each group is squalid but each thinks another is prosperous and bustling. Hard-hearted competition results from this perspective. This competition not only defined the political landscape, but it also distorted economic and financial life as well.

Democratic civilian government was a lasting casualty of the Biafran crisis. From 1966 to 1979, those who ruled Nigeria would do so in military garb. The rise of the military was the second of the three events that have profoundly shaped the character of modern Nigeria.

The last of the trilogy shaping modern Nigeria was the oil boom of the 1970s. Shell-British Petroleum discovered oil in Oloibiri in the Niger Delta in 1956. Oil did not become a magical instrument for Nigeria until nearly two decades later. The bounty brought by oil made it seem that the providential hand had touched Nigeria to compensate for the decimation occasioned by war. By the early 1980s, Nigeria and Brazil were heralded as the rising stars of the developed world that would lead their respective continents. Both nations staggered out of the gate of destiny. After a period, Brazil discovered its footing to pick up the pace toward realizing the congenial prediction. Nigeria's movements continue to be that of shimmying from side to side.

Still, during those heady days of the late 1970s and early 1980s, the Nigerian sun shined brightly onto the future. Money was being made in unprecedented amounts. A middle class began to sprout after the lean years of war. Nigeria was a net exporter of agricultural products. The country planted the early footprints of a nascent manufacturing sector, particularly in textiles. Trading at one naira to approximately $2, the currency was strong and a source of national pride. These were halcyon years.

Yet, something was not right. Leaders and elites unaccustomed to this tide of money were unprepared to use it wisely. Too many people began expending large amounts on frivolities. So fixated on personal enrichment, the elite made little attempt to create a foundation for multifaceted economic growth. This would be the birth of Nigerian ostentation, as the rest of the world has come to know it. Sadly, this unhealthy trait has outlived the economic bonanza that birthed it.

The golden years occasioned a brief refrain of democracy. In 1979, the military ceded to civilian government. Led by a decent man of pedestrian drive and vision, civilian government foundered. Reelected in a highly suspect 1983 election, the incumbent government was toppled by the end of the year. Nigeria would not

taste civilian government for another 16 years. From 1983 to 1999, Nigeria suffered a succession of military governments, each more wretched than its predecessor.

The two long periods of military government (1966–1979 and 1983–1999) cemented a hierarchical, highly centralized political and economic worldview in Nigeria. Acquisition of power enabled a ruler to seize everything else, including more power. This sense of infinite aggrandizement allowed its adherents to discard the rules and laws safeguarding the people from the raw exercise of power. Control from the top was nearly absolute. Leaders had the power to break lives and make fortunes. Too much of the economy was subject to the caprice of those who ruled. There was little room for political freedom and democracy, both of which are much easier to grant than the economic rights associated with balanced, equitable capitalism. Economic freedom was nowhere to be found. Politics was monetized and economics politicized. Whoever wanted to prosper had first to kowtow to the generals because one could only flourish if granted entrance into the space of their indulgence. Their whim determined if someone would become rich or remain poor. The ethic of bootlicking surpassed that of hard work as the means to prosperity and position. It was more profitable to be a bowing courtier than to possess a creative idea. Nigeria was at once modernizing, at once tumbling backward into the medieval.

Nigeria's economic position weakened in the mid-1980s. Oil prices fluctuated, causing revenues to gyrate downward. The attraction of easy oil money and misplaced government policies diminished investment and interest in Nigeria's agricultural prowess. The nation immigrated from being an exporter into becoming a net importer of essential foodstuffs. It began paying foreigners for things it once grew. The currency crashed and devalued in serial fits. Industrial productivity slumbered. Nigeria deteriorated into a relatively static economy. The dominant perspective was not one of productivity and aggregate benefit but of individual aggrandizement of a select few by expropriating

increasingly larger slices of the static economic res. The nation became overpopulated with rentiers who sought fortunes without making anything of value. Nigeria concentrated its focus on making money, not on making things. The trader and rent-seeking perspectives found easy residence in the financial sector; to this day, this mindset has yet to be evicted.

Toward the late 1980s, Nigeria's fiscal position and current account situation became precarious. Under International Monetary Fund (IMF) pressure, the military regime imposed the unpopular structural adjustment program (SAP). Predictably, SAP made a sick economy worse. As part of SAP reforms, bank and financial regulations were loosened. As a result, banks proliferated like bacilli. However, most banks were too small and undercapitalized to provide meaningful commercial services, such as business and mortgage lending. Instead, the banks were vehicles for a choice clientele to profit from currency arbitrage and other forms of financial suppleness. Rent-seeking, not meaningful investment in the productive economy, became the mainstay of the banking industry.

By 1999, civilian government returned to Nigeria. The new government was led by President Olusegun Obasanjo. As destiny would have it, he was the military head of state who transferred power to the civilian government in 1979. One score years later, he benefited from a similar act. President Obasanjo promised economic reform during his tenure. He succeeded in part and failed in part. In his second term, he enunciated his goal that Nigeria should become one of the 20 leading global economies by 2020. (Nigeria currently hovers around number 40 in terms of GDP.) He made this objective the centerpiece of his economic policy. To make this great leap, Nigeria would have to enjoy double-digit annual growth, while the score of national economies ranked ahead of it would have to mummify economically. Nigeria has as much chance of realizing this goal as it does of rolling itself to the moon in a wheelbarrow.

Still gripped by the military mindset, the political economy treated statements by the presidency with an ex cathedra deference the Vatican wishes it enjoyed. Almost no one openly challenged the spurious goal. In public, most echoed the statement with a reverence reserved for papal edicts. In private, people questioned it as one does the utility of a table having but a leg and a half. The ambitious GDP goal was predicated on an analysis conducted by the investment firm of Goldman Sachs. In 2005, the firm predicted Nigeria would climb into the company of the elite 20 national economies by 2050, provided it continued walking the path of free-market reform, i.e., opening itself to all manner of foreign investors and the removal of nearly all manner of economic regulation. In his inimitable way, President Obasanjo arbitrarily lopped 30 years from this prognosis and exhorted Nigeria to get on with achieving the goal within the abbreviated time.

At first blush, nothing seems amiss with the goal except its sheer impossibility. One would have to be utterly blind not to see the impractical nature of the quest. Yet, more is amiss. The goal places a premium on aggregate GDP growth. As such, it is a statistical exercise where bigger is automatically accepted as better. If taken seriously, adoption of this goal would mean that economic activity would be oriented toward effectuating the largest short-term impact on GDP expansion and not necessarily toward steady growth spanning a longer horizon. In this environment, economic progress would not be measured by improvement in the livelihoods of people but by misleading, grossly inflated statistics that bear no relationship to the economic reality burdening the population. Nigeria's upward movement on the list of large national economies would take precedent over the real conditions faced by real Nigerians. According to a rare outspoken observer, this was an enunciation of barren economic objectives by leaders who apparently love the notion of Nigeria more than they love Nigerians. While wanting Nigeria to become big and powerful, the leadership was also comfortable informing the people that they must continue to fend for themselves for they would obtain little succor from their government.

The goal is an artifice. That is its real trouble. Nigeria's pressing challenge is not to be one of the top 20, 15, or even 10 largest economies in the near future. Its organic challenge is to create a suitable economic platform that improves the lives of its people now and for the future. A mad dash to 2020 is secondary and should give way to this more appropriate guiding light. Nigeria can engage in economic tactics that make its GDP balloon during the years leading to 2020. However, if these policies are not sustainable, Nigeria might struggle to reach the goal, only to fall to exhaustion shortly thereafter. The grand effort would be for naught. Better to look at the larger future, better to gaze at the fact that much of the developed world, particularly North America, may implement technologies reducing their appetite and need for foreign oil and gas within the next 20 to 30 years. What steps should Nigeria begin now to make for a more versatile economy so that it will not quake with fear come the fateful day when petroleum demand drops? This task is less glamorous than the excitement surrounding 2020. Yet, meeting this challenge is imperative because the situation that gives rise to it is inexorable. Nigeria ignores this looming reality at its peril. However, Vision 2020 is a contrivance that can be observed or ignored with no material alteration in national consequence.

The mindset behind 2020, as opposed to that behind a more faithful rendering of development economics, takes Nigeria down a vastly different path than what the nation requires. Nowhere does this ramify more visibly than in the financial sector. Already an adherent to the "bigger-is-better" philosophy, then Central Bank of Nigeria's (CBN) Governor Charles Soludo did not need to hear Goldman-Sachs's prediction about Nigeria's economic elevation. He had already imbibed the financial elixir Goldman Sachs and other international investment banks were peddling. The airy talk taking place during the mid-life of a dramatic boom in global financial activities led many practitioners to believe they had discovered the road to endlessly increasing profits. The CBN lent a spirited endorsement to the hyperkinetic model of banking that migrated to Nigeria from America. This brash model took America on a joy ride

for another three years before crashing against the hard brick of insolvency. The same happened in Nigeria. Its financial system twirled like an ever-faster merry-go-round until it could not keep pace with itself. For the transient thrills enjoyed by the few, all would incur a devastating price.

In July 2004, the CBN revealed the cornerstone of its policy: bank consolidation. The CBN decreed an increase in bank capitalization requirements from 2 billion naira to 25 billion naira.[1] To survive, banks had until December 31, 2005, to jump the hurdle. To be charitable to Soludo's CBN, the extant banking system was deeply flawed. Nigeria had roughly 90 banks of varying sizes and strengths. Most were small, privately owned firms specializing in round-tripping, i.e., making money off the difference in the official and real market exchange rate. Some also gave short-term, high-interest loans to trading entities. However, their lending standards were too onerous for potential long-term borrowers. Interest charges were too usurious to do the manufacturing sector, construction, and housing industry much good. Soludo postulated that larger, better-capitalized firms would provide more commercial lending to the real economy at cheaper costs. He promised lending would escalate and the real economy would see unprecedented activity because of the expanded supply of credit.[2] His promises were the elixir prayed for by a struggling business sector. Unfortunately, the promise turned necrotic as soon as it was expressed. The fine words moved from birth to sepulcher in the breath of their maiden expression.

The consolidation exercise turned an antiquated, decrepit banking system into an exhilarating, detrimental one. The financial model presented to the public was not the one the bank actually implemented. The CBN's major concern was to channel investment into the financial sector. The overriding reason the CBN wanted Nigeria's banking firms to expand was that they might compete in international financial markets. The CBN was not so preoccupied with lending to create jobs and improve the Nigerian real sector.

Those were secondary considerations. The CBN wanted the financial firms to participate in big deals that made big money.

Explaining the bank consolidation, the CBN asserted the Nigerian financial sector would become the main driver of the economy. It would be the engine pulling the real sector behind it. This outlook inverted the edifice of prudent capitalist economics. To that point, the financial system had been adjunct to the real sector. Its duty was to help the real sector by efficiently allocating investment funds to the most productive elements therein. In this new rendition, the financial sector was transformed from being a branch of the economy into becoming its trunk. The CBN under Soludo became Nigeria's most ardent apostle of the same financialism that had thrust America into the mire.

None of this is to cast the former central banker as a villain. He is not. Like most excellent orthodox economists, he did not grasp the severe ramifications of the philosophy he adopted. He is not to blame, just as all the millions of people in Nigeria and around the world are not to be blamed, for thinking as he did. Being both architect and victim of a dazzling, yet destructive financial architecture, Soludo's tenure must be understood, not condemned. He is the Nigerian Alan Greenspan, a man whom everyone believed was omniscient in all things financial. Only later, when damage had occurred, did Nigerians discover he was as mortal and flawed as the assumptions by which he operated. Yet, at the beginning, he was viewed as a national savior. Now is not the time to go in the opposite direction by denouncing his tenure. He was mistaken, along with the vast majority of us. If we blame him, we must also blame ourselves.

Uber-Banks and a Levitating Stock Market

The new king gazed at his great palace, yet was unsatisfied by its stately proportions. He wanted something bigger. He summoned the master builder, declaring he wanted to enlarge the mansion so that it would be the envy of his fellow rulers. When the builder started

talking about extending the foundation to accommodate the expansion, the king silenced him quickly. The king revealed he did not yet know the limits of the desired expansion; thus, he did not want to lay a foundation that might restrict him to size. He decided it was best to construct the enlargement then lay the foundation below it afterwards. The builder began to protest against the jeopardy inherent in such an adventurous approach, but the king quieted him once more, explaining that as long as they kept expanding there would be no collapse. The builder proclaimed the king's plan a stroke of genius. Both men grasped hands and smiled at the dimensions of the great undertaking. At that moment, folly was let loose.

The plan was not a stroke of genius but evidence of the monarch suffering the stroke of madness. No building of any consequence can be erected without a foundation. No building can be expanded infinitely. Life does not permit any human activity to expand without limit. The CBN's strategy for the banking sector would be based on such a nonexistent foundation.

By fiat, the CBN consigned the banks to a lethal enlargement that would catapult the financial system over firm ground and into the marsh in short dispatch. By January 1, 2006, 25 banks stood where 89 banks had been. The journey was arduous. Banks had to procure substantial capital either by raising funds, merging with other banks or a combination of both.[3] Faced with an arbitrary and swiftly closing deadline, bankers who wanted to preserve their jobs and institutions did not have time for niceties. One way or another, they had to reach the magical threshold. This caused banks to puff the value of existing and newly acquired assets to position themselves closer to the contrived objective. They deployed overly inventive accounting methods. The use of these creative methods did not end just because the banks attained their capitalization requirement. It would carry into the operations of the new banks with disastrous consequences later in the day.

Banks did not have the critical mass of personnel with requisite skills to handle the complexity of the new institutions. Increasing a bank's capital base was not merely a quantitative exercise. The increase was so large and sudden that it had a qualitative effect. The policy was revolutionary, not evolutionary. Most surviving banks did not have personnel sufficiently versed in risk management, loan underwriting, and portfolio management to properly steer banks of this new magnitude. The banks grew from infancy to adulthood overnight, but the quality of management did not change.

Banks were awash with unprecedented levels of capital. Much of the money would quickly depart to alternative investments unless the banks provided meaningful returns on investment. This made the banks jittery; sudden growth placed the banks under tremendous strain to make profits in order to maintain the increased funds. In retrospect, the banks had been forced to expand beyond the size dictated by underlying economic fundamentals. They had been swollen to the point where several of them became too big for the economy. The banks did not see the real sector as the appropriate venue for the investment of the new funds they possessed because that sector was too small and uncertain. Lending to the real sector was long term, low yield and chocked with risks. It also was not something the banks had done consistently or well. None of the banks dared tie down funds in real-sector investments while rival banks were announcing higher short-term profits from investing elsewhere in the financial sector. Consolidation increased competition among the banks to unhealthy levels. It also created a herd mentality. None wanted to be left behind or to miss an opportunity. They all imitated each other without stopping to discern if they mimicked folly or wisdom. Thus, competition was not directed toward more commercial lending or to providing greater services to consumers.

The CBN governor's assertion that consolidation would encourage investment in the real sector proved hollow. The CBN never instituted the regulations or incentives that would make the

statement true. Perhaps the CBN thought the process would happen as a natural consequence. When it became apparent that the policy was not progressing toward its stated objective, the CBN did little to bridge the gap. The CBN governor kept mum, perhaps, because one of his more important objectives was being accomplished. The financial branch was quickly becoming the trunk of the economy. Soludo, like many others, remained blind to the mean consequences of the plan he advocated and put in motion. He saw only the unsustainable positives but few of the probable negatives of financialism.

Driven partly by necessity, partly by greed, banks quickly identified the best high-yield investment prospects: themselves. Banks started holding sizeable public stock offerings. Elated by news of high profitability, the general public's investment in banks spiked. According to the size of their pocketbooks, rich and poor bought stock. Public offerings were chronically oversubscribed despite being prolific. The banks kept proclaiming record profits and issuing stock in record numbers. International hedge funds and speculators with a keen eye for short-term returns flocked to Nigeria like pilgrims upon reports of frequent miracles at a newly hallowed cite.

Soon banks were lending money to investors and stockbrokers to purchase stock denominated by the lender bank. This cantrip of margin lending became a mainstay of the surge in the banking sector.[4] However, someone forgot that excessive margin loans were the proverbial double-edged sword. During the 1920s, the illiberal tryst with margin loans fueled the financial boom that turned the early part of that decade into "The Roaring 20s." The dark side of this proliferation of margin loans helped trigger the Great Depression. Margin loans sowed false gaiety to reap genuine sorrow. They yielded a caustic harvest in Nigeria, similar to what they wrought 80 years before in America. The money injected from the frequent public offerings, international investors, and consolidation itself suffused the banking system with high liquidity, but few decent investment outlets. The establishment of large pension funds, limited

by the statutory prohibition against investing overseas, injected even more capital into a system that lacked a sufficient number of genuine investment opportunities to warrant this degree of capital infusion. Easy money begets looser discipline. Already weak in corporate governance, risk management, and economic forecasting, the banks were almost destined to engage in the broad malinvestment that would follow.

At first blush, a system replete with money sounds like banker's paradise. For sure, it is more pleasurable than the opposite. However, it remains a long road from nirvana. Along with its good angels, a condition of plenty has demons that can wreak havoc on those who fail to recognize the pratfalls for what they are. This plenteous situation is not pure frolic. It requires greater restraint to maintain decisional prudence when in the possession of larger sums of money. The larger the sum held, the greater the temptation to act brashly.

Since money is what it is, holding a large amount comes with a hidden price, accompanied by eager illusion. This combination of price and illusion is a damaging thing, but only latently so. People invest or deposit funds in banks because they trust the institutions will handle the money safely, yet provide an increase as the banks pay the investor or depositor for use of the funds. Safekeeping and stable, if scant, profit for the true owners are the costs banks pay for using money belonging to others. The façade of escalating profits caused Nigerian bankers to fall vulnerable to the same delusion that led their American counterparts to near ruin. The very façade that the banks created to dupe the public worked to deceive its builders. The more money the banks held and the longer they profited from it, the more they thought they held the superior right to the money. They thought they could use the money as they wished, as if it were theirs. In the collective adrenal rush that accompanies a period of easy money and speculation, the banks acted as if the funds no longer belonged to the depositors and investors.

Give a man $100, he remains the same man. Entrust him with a million dollars, he becomes transformed. Within a week, he must be reminded who owns the money. In a month, he will complain that the owner is an irritant who asks too frequently about the money. The man stops taking the owner's telephone calls. Such is the temptation attendant to taking custody of large sums of money.

Nigerian banks started acting as if the deposits entrusted to them were prizes won at the lottery or found in a box on the roadside. They clung to the inconsistent view that money was in infinite supply, yet still of increasingly high value. Thus, they grew cozy handling funds while remaining inept at managing them. Some bank officials started making insider deals, lending to themselves and to cronies for sometimes frivolous undertakings. This was the time of a massive escalation in global oil prices. No one wanted to be left out of the profit taking. With sober hindsight, it is clear that too many banks lent enormous sums for projects in this sector. No one seemed worried that global oil demand was rising too fast and, thus, would peak, and then plummet. No one wanted to be the lone fool waiting at the station after the train left. Because they heard there was a party inside, most bankers jumped on board not knowing the final destination. When it came time to disembark, they would find themselves in the land of nonperforming loans, on the peaks of insolvency.

Huge loans were made to important business figures in other industries experiencing growth spurts caused by the spillover from the oil sector and the general global economic boom. Many of these loans made little economic sense. The principal amounts were so large and the interest rates much too high to pay unless the borrower expected outlandish profits from his business. Only the rare legitimate business could make the percentage returns on investment capable of satisfying the interest payments on these loans. The only reasonable explanation is that many loans were taken without the thought of being repaid. Borrowers and some banks colluded in what was tantamount to massive fraud and theft

against shareholders and depositors. Billions of naira were stolen in this fashion by people purporting to be pillars of the national economy.

People assumed massive debts because they thought the good times would forever roll and they would never have to repay what they had borrowed. Believing the banks would always be awash in cash, bank officials thought they could rollover loans indefinitely. The banks carried the transactions on their balance sheets as assets, thus making the firms appear stronger than they were.

Small wonder banking took on a festive atmosphere. It was the confluence of carnival, banquet, and casino as bankers arranged themselves like an intriguing array of magicians, jugglers, and tightrope walkers. Only a few bankers managed to keep sober perspective. They handled themselves and their banks adroitly. They are the unsung heroes, the salvageable fabric in this otherwise forlorn tapestry of greed. Most bankers acquired celebrity status. Everyone wanted to see and be seen with them. No social event was complete without a major banker in attendance. Bank advertisements dominated the print media and airwaves. After one bank managing director purchased a jet, others tried to outdo him by purchasing a squadron. One bought a yacht; others tried to acquire a private fleet larger than the navies of most small countries.

The banks and their heads won slews of awards at home and afar. CBN Governor Soludo was voted the international central banker of the year and appointed to various international commissions. Bankers lived life beyond the fullest because they lived it on other people's money. Had they fed their dogs caviar or washed their own feet in champagne, no one would have disbelieved the luxuriant behavior. They were the new captains of industry, except for one thing. Banking is not an industry in the way that manufacturing and construction work are industries. It is a service intended to facilitate these other industries. By behaving as they did, bankers effectively mounted a coup against the economy.

It seems everyone forgot a fundamental truth. A flamboyant banker is as fated for defrocking as is a licentious monk. A banker is essentially a trustee. Showmen and performers make miserable custodians of another person's keep. Upon encountering an extravagant banker, a wise man should hold fast his money clip and dart across the street. In Nigeria, the opposite happened. People gravitated toward the bankers because they were perceived as buoyant personalities living the charmed existence. They ultimately became pied pipers seducing a nation toward the financial heap. However, in the beginning, they were apostles of endless prosperity, prophets of brummagem profits.

From 2006 through early 2008, the Nigerian stock market was the primary stage upon which the bankers exhibited their wizardry. After bank consolidation, the financial sector climbed to 60-65 percent of market capitalization.[5] Representing nearly two-thirds of the stock market and being the biggest players therein, the banks were, in effect, the market. The financial sector's percentage share of the Nigerian stock market was unrivalled by any other major stock market on the planet. As the banks went, so did the stock market. For a long time, things went well. Months into the consolidation, bank profits were growing at an incredible rate. In 2007, only one bank's increase in after tax profits over the prior year was less than 40 per cent. Most banks recorded profit increases of over 100 percent, with some banks more than trebling their prior year's take.[6] By that same year, Nigeria was hailed as one of the world's top stock markets. Skyrocketing oil prices also helped as did a healthy telecommunications sector, but banks were the undisputed leaders of the surge.[7] Because of the merriment of the banking sector, few people stopped to observe that the overall economy was brackish. In a few months, this reality would thunder upon the nation with a hypersonic boom.

Banks continued issuing public offerings. One bank put forth three such massive offerings in less than three years. Other banks were almost as prolific. Few stopped to wonder why a supposed

highly profitable bank would need to trek to the market to raise capital so frequently. The lack of scrutiny was because the banks continued to announce huge profits and dividends, despite expanding their pool of shares and shareholders. The rapid increase in the number of shares should have diluted the worth of each individual share under normal circumstances. Again, like their American counterparts, the thirst for additional funds propelled many banks to the twilight of legality.

Several banks figured they could announce the most outlandish dividends for one simple reason: they had little intention of fully paying them. Banks would announce huge profits and dividends to entice others into the market. However, they paid the announced dividends slowly and partially, if at all. Many people bought shares only to wait months for their certificates. Payment of dividends, once the certificates were had, would be made with even less speed. Banks further conspired by having different annual accounting cycles. This enabled them to pass the same money between themselves. Each could claim ownership of the same bundle of money at the critical moment of their accounting cycle. This legerdemain gave novel meaning to the term "multiplier effect." In short, accounting practices were no longer prosaic. These practices came to resemble impressionistic art more than the business science they purported to be. Financial romanticism trumped precision. Balance sheets were not deduced using a ledger or abacus, they were painted on canvas in order to beautify a financial situation that had turned ugly. The bankers' plan was to entice more people into the crumbling building in hopes that, by their multitude, these hapless souls would function as pillars delaying the building's fall.

For anyone with a justifiable expectation of receiving funds within a defined period, money deferred ceases being money at all. Sheared of their window dressing, the tactics employed were nothing but elaborate dupery to part people from their money. When enough new investment came, the guilty banks would pay dividends to a portion of their earlier investors. Investor tales of received

dividend payments would further entice new investment. This structure has but one name: Ponzi scheme.

A curious aspect of this period was the CBN's decision designating a handful of local banks to collaborate with foreign financial institutions to manage Nigeria's foreign exchange reserves that were burgeoning due to record oil prices. If the local banks were as profitable as they and the CBN assured, there was little reason to place the reserves under the dominant control of alien firms and relegate the local banks to roles as junior partners. This arrangement seemed inconsistent with the touted acuity of the banks and could not be completely explained by the fact the functional currency in this arrangement was the dollar, not the naira. In effect, the CBN did not trust the banks with the government's money as much as it trusted the banks with the general public's funds. This was because it knew the banks, as organized and operated, could not profitably absorb and invest the foreign exchange. This was a vote of no-confidence in the banks as a whole. The caution the CBN used in investing government funds should have been expressed to the public. Instead, the CBN encouraged the public to trust the banks to an extent the government would not.

Meanwhile, the proliferation of margin loans sustained the malinvestment craze, making the decline steeper when it finally came. In the heyday of the market, margin loans climbed to roughly 13 percent of total bank assets and over 10 percent of equity market capitalization.[8] This far exceeded the maximum two percent level in many other nations. Margin loans are fine as long as the market climbs.[9] However, if the market plummets, the borrower is visited by twin shocks, both being exceedingly rude. First, the borrower may find stock values reduced to the extent that he cannot satisfy the loan balance solely by selling the shares. Thus, he may sell the stock, but still owe substantially on the loan used to purchase the cheap paper. Second, the borrower consequently is forced to liquidate other assets to quench the obligation. This possible outcome produces a

fretful stampede mentality among those with significant margin loan exposure.

The second the market wavers, people start unloading stocks in hope of selling before the price drops. The panicked action causes the exact effect that borrowers seek to avoid. Stock values drops dramatically. Turning the worst-case scenario from fiction to gothic reality, their frenzied sell-off does not reap the expected income. As in America, the ingredients of the boom were also the catalysts of the bust. Cracks started appearing in late 2007. An important, yet rickety trestle that had opened passage to financial adventurism began to crumble under the weight of the global downturn. Foreign hedge funds and speculators began feeling the pinch of the incipient global crisis in their Wall Street and Canary Wharf lairs. When this happened, they quit seeing Nigeria as an investment miracle. As the pressure mounted, they saw the Nigerian market as but a minor capillary feeding an unessential appendage. Once the major organ came under threat in London or New York, all available blood was funneled to that organ. The international players pulled their funds out of the Nigerian market to defend home turf from insolvency. Investors also were afraid the slippage in the established markets would infect the emerging ones. While eager to make quick money in emerging nations during the easy days, investors were reticent to endure hard times in the Nigerian market; the newer markets like Nigeria's did not offer the investor protections built into the mature economies. The emergent nations better approximated the free market model, where failure meant the investor lost his money. This made large institutional investors jittery. They wanted to make free-market profits but also wanted the safety net of government intervention should their investment bets prove errant.

Unwittingly, the Nigerian financial sector had hoisted itself on the back of a somnambulant predator. By tossing money about indiscriminately, the sector placed its arm, shoulder deep into the beast's mouth. The inevitable happened. The beast bit.

The stock market reached the high-water mark in March 2008, but its frenetic pace could not be sustained.[10] The lost foreign investment had consequences graver than its numerical value. It shocked bankers into reality, making them realize the pool of investment funds was not only finite but also evanescent. Everyone's fingers got sweaty yet sticky upon this realization. The banks were much less willing to part with funds because they were unsure another infusion would be forthcoming. Banks started withholding loans to each other. As the inter-bank system ossified, the same stickiness afflicted retail lending. Funds circulated less rapidly. This made financial actors feel cash strapped. This was parlous because bank liabilities had ballooned out of proportion to the true market value of their asset bases. The financial houses had entered a squall of illiquidity. A more injurious storm was brewing.

The more the specter of illiquidity lurked, the slower the system recycled available funds. The greater the distress grew. This distress frightened off the new investments needed to keep the beast sated. In a rare attempt to instill market discipline, the CBN issued a somewhat ambivalent statement loosely proscribing margin loans. As is usually the case, by the time a lax parent finally disciplines the wayward child, too much damage already has taken place. The admonition came too late. In fact, the restraint on margin loans was the wrong medicine by that time. The day for uttering the caution was when the market was overheating and in need of cooling. The CBN issued it after the downslide had begun. Instead of moderating the climb of an ebullient market, the admonition hastened the panicked retreat.

The resupply of investment funds for banks evaporated to the point of becoming a negative flow. Bank profits and the stock market proved caducous. This swoon revealed the ugly truth: the banking surge had been driven mostly by speculation. Banks did not make lofty profits through the skilled provision of traditional commercial banking services. The banks were nothing more than elaborate gambling houses. As investment money thinned, the weakness of the

banks was exposed. Bank stocks and, thus, the entire stock market began to shed value. Fear and contagion established residence in the once giddy financial markets.

Values sank quickly and nothing could stem the descent because the decline was inherent to the system. The margin loans served the same purpose in Nigeria that derivatives played in America. All the investments, the boosts in value, and bravado surrounding speculative phenomenon amounted to nothing more than the ruffling of paper and the imprudent celebration of paper being ruffled. What was claimed as wealth was not money, but the impression created by the shadow of money. This great deception was possible because people did not understand the significant distinction between investing in production and investing in investing. It was counterproductive to pile investment on investment when there was only a tenuous link between the serial investments and tangible productive activity. In the end, this process amounted to an enervating circularity, in which everyone claimed the same funds but could do little with them, except continue to pass the funds to one another in order to maintain the façade of widespread profitability. Breaking the cycle not only destroyed the system, it diminished the value of what everyone claimed to own. Yet, the circle had to snap at some point. A major player ultimately would face an exigency that required the actual payment of sums larger than what one would keep in the petty cash canister.

For over two years, bank stocks soared on the wings of false cherubim, while the real economy sputtered and choked. The inescapable truth is that the long-term aggregate trajectory of the banking sector and the stock market must coincide with that of the real economy. Eventually, they converge. The greater the temporary divergence, the more drastic and painful the reunion. The CBN could have averted the worst of the crash had it acted to corral the bull rush as late as the last quarter of 2007. Perhaps it was unable because its governor could not fathom that his miracle had transmogrified in such a brief span. A darker truth is how CBN

policies placed enormous wealth in bankers' hands. That wealth instantly translated into greater political access and influence. In other nations, these links would have raised conflict of interests concerns. In Nigeria, they were glossed over. A rich coterie was established that wielded money and power, while blurring the line between government and business. While the financial sector did not openly purchase the government, it certainly established a congenial partnership with the financial regulators. Regulators continued to look the other way even when everything had turned so badly that there was no other way to look.

By early 2009, Nigeria was ranked as the world's most poorly performing bourse by a respected financial reporting outfit. The stock market had retreated by nearly 60 percent from its March 2008 peak. It had crashed from a capitalization of 12.6 trillion naira to 4.7 trillion naira. During the decline, the CBN first tried to reassure investors by asserting Nigerian banks were immune from the global downturn because they were well capitalized. The CBN claimed the Nigerian banking system was not substantially enmeshed in global financial networks. When this Panglossian assurance proved false, the CBN tried to salvage its reputation by claiming consolidation had made the banks strong enough to withstand the strain brought by global ill winds. This was also untrue, but harder to contradict because the CBN had deployed a few creative schemes to veil the financial sector's spindly legs.

Perhaps the major help provided the banks was to allow the official and parallel currency rate differential to expand to yawning proportions. The CBN backed this with regulations giving banks greater shares and control over the foreign exchange auctioned by the central authority. At one point, the difference between the two rates was 145 naira versus 180 naira to the dollar. The spread of roughly 25 percent was enormous. Currency arbitrage with this wide spread offered banks a lifeline by stealth. It provided some of the short-term liquidity needed to ward off utter collapse. This was a bailout via the back door. Still it proved insufficient.

By the time Soludo's first term as governor had expired in 2009, his magical touch had expired with it. He was not reappointed. Enter new CBN governor, Sanusi Lamido Sanusi. Sanusi was previously managing director of the relatively conservative First Bank. His career had been as a risk officer. The difference between the two men was vast. Sanusi made his reputation by focusing on risk. Soludo had made his name by ignoring it. Sanusi had been professionally and personally offended by the lax, errant behavior of the banks. He understood they had built palaces in the clouds, wasting other people's funds in doing so. He understood the crash was inevitable. The question would be whether the decline could be cordoned so that it would not burn the entire economy in the process. He assumed the mission of rescuing the banking sector and the economy like the avenging angel of financial discipline. Where Soludo was milk drops and honey, Sanusi was brimstone and bitter medicine.

Sanusi proceeded to modify his predecessor's policy edifice with lightning speed. He summarily fired the management of eight flailing banks in August 2009. With the same sweep of the hand, he provided a $4 billion lifeline to these and other banks with serious liquidity problems. Many would complain, with some justification, that Sanusi acted without due consideration to due process in dismissing bank management and in making other decisions restructuring the wounded banks. His statements that shareholders in these failed institutions had better understand that their shares were essentially worthless were impolitic and brutal in their financial honesty. To many, he seemed to find too much joy in the job of amputating the rotting limbs of the banking sector. Yet, he understood the banking system had become insolvent. On balance, his actions staved much greater disaster. While some might quibble about his abrupt manner, it would be wrong to forget that he saved the system from drowning.

Sanusi also pushed to establish an institution known as the Assets Management Company (AMCON) to cleanse the balance sheets of the troubled banks by taking possession of their

nonperforming loans and other assets. This entity was charged with collecting as much as possible on these crippled assets. While the banks would now be left with a much smaller asset base, they would also be solvent and more credit worthy. This was a condign innovation that helped save the day when all went dark. However, even the most well-reasoned emergency measures have flaws. AMCON is no exception. This intervention might redefine moral hazard for the worse. By clearing the bank debt, government implicitly assured it would rescue the banks whenever they hit the ropes. Having government stand as their backstop surety may not cause banks to act more prudently. It may encourage laxity, since the banks now know government will rescue them from their own misdeeds. The new CBN governor will have to be very careful how AMCON conducts business, lest the entity encourage a new round of the type of dangerous speculation it was intended to cure.

Sanusi has come under great fire from many quarters. Many people claim his reform measures have choked the credit supply. They harken to the days of the Soludo era, without realizing that era's speculative frenzy was what placed them in the present vise. They confuse cause and effect; they fixate on the uncomfortable side effects of the cure, blithely forgetting they were recently in the throes of mortal danger. It is an odd thing to castigate the physician for making an incision to remove the bullet, while lionizing the assailant who fired the projectile. Sanusi is not perfect. Technically, he cannot be faulted on the major issues, but, politically, he is prone to slapping the hornet's nests with his bare hands. On balance, he has performed competently, often adroitly, at times even inspired, if that word can be used in connection with a central bank governor. But for his swift action, Nigeria would be treading the winepress of financial collapse and deep economic recession. Moreover, he has been willing to face what many central bankers would not. He is seeking to do more than salvage the financial system. He is trying to reform it, and he has succeeded to some degree. Unlike the bailouts conducted in other countries where public funds were exclusively used, Sanusi has asked the private banking system to bear a

significant share of the overall costs of his reform measures. He has also brought some erring bankers to justice.

To his credit, Sanusi knew he needed to redirect investment from its inordinate focus on the financial sector, pushing it more toward productive enterprise. The N200 billion (roughly $1.4 billion) small- and medium-enterprise loan guarantee, the lower interest rates for real-sector lending and the N500 billion (roughly $3.4 billion) power sector facility are all aimed toward this objective. These measures seek to strike the correct strategic balance between financial sector and real-sector investment. If properly implemented, they will help expand and improve the Nigerian infrastructural base that, in turn, will enhance productivity, lower costs, and encourage more investment in the real sector.

While he might not speak in the stark terms found in this book, Sanusi seems to appreciate the danger presented by rampant financialism. By his actions, he is trying to direct Nigeria toward sane capitalism. The rules for better corporate governance, risk management, and loan underwriting he has promulgated will help the long-term integrity of the country's financial institutions. Banks will move closer to their proper role of facilitating growth and not trying to drive it.

With all that he has done to correct an inherited situation, his most far-reaching challenge may be one he hoisted on himself. Sanusi has announced a policy to further consolidate or merge banks. If this works, Nigeria will have fewer banks and, hopefully, each will be better run than those of the preceding consolidation. Moreover, with increased prudence, they will be more adept at providing the scale of commercial banking services needed to pump blood into the anemic real sector. This is the ideal. In creating this policy, perhaps, he viewed the Canadian system as his model. Comprised of a handful of banks, Canada's sector has been one of the world's best and most stable. However, the secret to Canada's success is not the number or the size of the institutions. Its success

derives from the business culture upon which the Canadian financial system is based. Although an offshoot of the same Anglo-American economic roots, the Canadians never adopted the new, carnivorous trends in financial thought that emerged in America and the United Kingdom.

Unlike their American and British cousins, the Canadians never embraced the current exultation of the unbridled free market as the expression of human perfection. The Canadians eschewed the idea that financial markets are always self-correcting. Since the Canadians never drank the elixir, they did not directly feel the effects of its poison. Thus, Canadian banks grew large without becoming financially lascivious. The Canadian banking system remains a staid and closely regulated one. However, Nigeria took an addict's dose of the financialist intoxicant. Unless Sanusi can police the banks and modify their speculative culture into something more wholesome, the drive to fewer, larger banks might have a destabilizing impact. The banks might be deemed so big that the failure of even one could pose a systemic risk to the whole system. If so, the banks will enjoy an implicit guarantee of being rescued by government should they run into the rough. Instead of being more prudent, this lifeline could well embolden them to be reckless.

What Sanusi attempts is a vast gamble in Nigeria. Nigerian economic thought and its financial system have been infected with financialism. If the financialist mindset still predominates after another round of bank consolidation, then bigness is a mistake; it will be construed as a license toward greater license. Unless Sanusi does enough to eradicate the profit-mad business culture and the slippery corporate governance that follows on the heels of financialism, further consolidation may tie the financial system to the warped lathe of speculation and strategic imbalance with the real sector.

The Lessons Learned

What happened in Nigeria was more than the tail wagging the dog. Here, the tail convinced the discombobulated canine that the tail was the head. There are a few important lessons to learn from this episode so that dog, head, and tail return to their proper roles and places.

First, the exponential increase of the financial sector in a way that materially alters its relationship with the real economy is destined for seismic failure. The size of the financial system must stay within healthy proportions to the size of the real economy. Consequently, rapid expansion of the banking sector formed the core of Nigeria's financial difficulties. Bank consolidation proved to be a condemnable achievement. Forcing banks to capitalize to the higher levels skewed an already uneven relationship between the financial sector and the real sector. The rapid acquisition of this level of capital had mostly negative quantitative and qualitative consequences. Because policymakers and regulators were enamored with the concept that bigger is automatically better, they never undertook a critical analysis of what they were doing. They wanted to play in the big league and have the world take notice of Nigeria's banks. They acted as if size bestowed skill.

The financial sector became too large for the underlying economy to support. Instead of being the mechanism allocating capital to effective engines of real-sector growth, the financial system started to consume larger chunks of available capital in order to sustain its bloated self. The banks increased in mass; in finance, mass is never inert. The larger mass dictated that financial transactions would exponentially increase in velocity and volume. However, the rentier nature of the transactions did not change. The steep enlargement of the entire banking sector within such a short period inevitably meant that said growth would retard the real economy. Banks became a drag on the real economy. The real economy became a thirsty man carrying a large bucket of water from

which he was prohibited to drink. In the end, this policy of rapid capitalization of banks produced a systemic misallocation of capital that perpetrated harm on the real economy.

Second, expansion in the size of individual firms should not exceed the ability of the firm's personnel to manage the larger byproduct. The misappropriate expansion that straitened the financial sector in the aggregate also distorted the evolutionary development of individual banks. It is quicker to accumulate money and expand the size of a bank than to provide the higher level of expertise needed to prudently manage the more complex organization and its larger balance sheet. For individual banks, consolidation was partly a curse. Rapid accumulation of capital outstripped each bank's ability to manage it. Internal structures and risk assessment capacity lagged behind the growth of capital. The change in size produced a qualitative change in the banks.

Recrudescent banks were not just larger versions of their former selves; they were entirely new institutions occupying a different stratum of the economy. Instead of developing gradually, the banks instantly mutated. Their position in the economy changed from being an adjunct to occupying the commanding role. Yet, the personnel in charge of most banks did not change in terms of possession of the qualitative expertise needed to keep pace with their new assignment. Minus the acquisition of sufficient skill and knowledge, they remained privates and corporals improperly brevetted to become captains of the economy.

Third, a financial system based on "investing in investing," which means investing in financial instruments that are themselves investments in other financial instruments, renders the system susceptible to dramatic mood swings. The most egregious malpractice during the squalid episode was the wanton resort to margin loans that served to artificially inflate the value of bank stocks.

A small quantity of margin loans can stimulate the markets and the overall economy to positive effect. However, excessive margin lending creates an intractable standoff. Seeking to make profit from the interest, the banks claim the loans as assets. The borrower also looks at the loan as an asset, believing he will profit from dividend payments from the bank. Yet, it is impossible for both sides to gain the most advantageous cash payments from the same transaction. They create a loop of impossibility that only becomes visible when new funds stop being injected into the system at a pace that sustains the level of margin lending. Once the pool of new investment shrinks appreciably, neither party in the aggregate can honor its obligation to the other, without first receiving payment from the other.

Additionally, by giving banks a tool to artificially inflate demand for bank stocks and inflate the value of bank stocks, margin lending further distorts the balance of investment between the real and financial sectors.

This brings us to our fourth consideration. Expansion of the financial sector must be paralleled by an equal enhancement of regulatory capacity. In Nigeria's case, system regulators failed. Bank consolidation uncovered a yawning regulatory gap within the government agencies tasked with monitoring the financial system and the stock market. Regulators were ill-prepared to force risk management and lending practices to a higher standard so that banks could handle the increased responsibility wrought by capitalization. This lapse was surprising. The margin loan has been a known explosive for at least four generations of banking and financial regulation. They were a big culprit in Great Depression and in subsequent crises in other nations.

Many of Nigeria's regulators and major players were educated in the United States. It seems they played truant the days their various economics classes discussed the origins of the Great Depression. It is baffling that regulators remained idle as the volume of margin loans exceeded prudential bounds. No one in government sounded a

cautionary alarm that the financial system was overheating. This shows that the regulatory bureaucracy is sclerotic and unimaginative in a way that stifles independent thinking and analysis. It also shows that regulators did not understand their role: to instill balance in the system by taking countercyclical action. When the system is expanding and primed to overheat, the regulators are obliged to enact contractive measures. When the system is folding and losing steam, regulators are to pump energy into the laggard sector.

In Nigeria, the regulators did nothing except cheer as the market heated to the point of scalding itself. When the burn victim looked for help, the regulators hid, save for the new CBN governor. The idle officials defended their inaction by meekly referring to the inevitability of the business cycle. However, this was not the normal rotation of the business cycle. It was the result of misguided policies, abetted by weak regulation. Instead of keeping competition for profits within reasonable limits, government encouraged blatant profiteering that actually placed the financial sector in competition with the real sector for essential investment funds. When the financial sector ceases to complement the real sector and starts to contest it, something has gone awry. Government has abdicated its primordial function of managing financial competition so that it does not swell into conflict so intense that it becomes detrimental to the institutions involved as well as to the entire society.

Perhaps the most negative consequence of Nigerian financialism is that its strong concentration of financial resources in the hands of a relatively small number of actors undermines the country's inchoate democracy. Citizens and civil society groups cannot contest against the vast sums that the large institutions toss directly or indirectly toward officeholders. The affluent attain too much power and shape policy to their benefit through opaque, subterranean channels anathematic to democracy. To a large degree, a nation's financial policies may have greater affect on the everyday course of Nigeria's democratization than do its electoral system and the

mound of laws pertaining to civil liberty. This lesson about financial inequality is one that Nigeria must learn quickly. The nation has very few institutional safeguards to prevent this vast concentration of wealth and political power from permanently stunting both democratic and economic development.

Chapter Three

Were the Philosophers Stoned?

The man who closes his mind's eye loses sight of his better thoughts.

In the first two chapters, we summarized recent financial crises in America and Nigeria. The American demise was caused by unsustainable real estate prices and prurient investment in derivatives, particularly credit default swaps. In Nigeria, the problem was the artificial enlargement of the banks and the resultant artificial ballooning of bank stock values. The most egregious vehicle facilitating this proliferation was the margin loan. In both nations, the investment mechanisms triggering the giddy profiteering were the very instruments burking the economies at a later date. In both cases, financialism had become the dominant economic mindset. It was the frenzied music that turned man into beast, then drove him mad.

Spokespersons for this distortion of capitalism will acclaim theirs as the new way of business. They will further declare that the future they sell is inevitable. They call this progress and assert that progress comes with minimal costs. The costs are akin to those of removing an old road to construct a wider, better one on the same bedrock. These disciples bandy terms like "creative destruction" and expect us to delight in their erudition. Their wisdom is doggerel. They would have us believe every new economic twist is good and that the demise of yesterday's processes is always a gain. They speak of a relentless, merciless advance in the role of finance in the economy, as if economic interaction can be reduced to terms best reserved for physics. For them, economics can be distilled to "irresistible money meets the immovable object: itself." While they

consecrate this one party marriage, most people abhor it as dire greed.

The claptrap of financialism's addicts notwithstanding, the only thing we can say with certitude is that every new method represents change; the more change is adopted, the less the old ways are deployed. A new way begets destruction of the older. This is beyond disputation. Yet, we must realize destruction may not bequeath anything useful or more valuable than what it erases. Destruction is just that: destruction. It does not lead to any other thing by necessity. Progress, indeed is born from change, but every change does not birth progress. Every house is a building of some sort, but not every building is a house. We need not accept either aspect of the dual assertion that financialism is both inevitable and salutary. We stand on firmer ground by postulating that it is neither.

Reckless profiteering and the strident concentration of wealth in the hands of a few are the hallmarks of financialism. They are also the scourges of prudent capitalism. The spine of capitalism is the production of manufactured goods. The pulse of financialism is to make increasing amounts of money without manufacturing any tangible product, save a ream of financial paper. Financialism threatens to supplant capitalism without ameliorating capitalism's rougher edges. Financialism's advocates label the game they play as the freest of free-market capitalism. However, this new way is something more pustulant than capitalism, which already has its full quota of wrongs and warts. Capitalism need not add to its coldhearted reputation by assuming responsibility for financialism's acridity. Financialism is a degradation of capitalism in that it exalts money and the power of money over the creative process of manufacturing. At least, manufacturing involves a less repugnant interplay of human labor, physical capital, and money than the interplay financialism envisions. Financialism would turn capitalism's multi-layered complexity into a one-way street, a cul-de-sac where money and other financial instruments dictate the evolution of the economy, instead of the economy dictating the

evolution of financial instruments. It would be like one's blood supply trying to arrogate the functions of the mind.

At bottom, financialism is a refutation of government's organic role in moderating economic competition and processes so that the very things that are supposed to bring prosperity to society do not precipitate viral conflict. We must challenge this abnegation if we hope to achieve the type of economic growth that truly can be described as progress.

As part of the yearly festival, the superintendent wanted to honor the wisest man in the county with special praise and recognition. He asked residents to identify that wise man for him. The names of three were constantly mentioned. Believing he could not simply select among the three arbitrarily, the superintendent determined to select the wisest of the trio by submitting them to a test of wits. He outfitted a special room of which no ray of light could leave or enter. The men were placed in the room. The superintendent would alternatively turn off all the lights in the room to leave them in complete darkness, then turn on all lights, placing them in ample brightness. After a period of days, the superintendent told the wise men their challenge. He asked them to use their great wisdom to discern whether it was day or night. The men sat in their chairs contemplating, searching their minds for insight that would lead to the answer. They replied they needed more time to think. Disappointed, the superintendent, nevertheless, obliged. He exited the room. Many more days passed, yet none of them came any closer to the answer.

One day, a maid entered with their regular provisions. One of the wise man asked, "What of John? Where is he this day?" The maid replied she had been asked to serve them at the last minute and knew nothing of John, the steward who previously cared for them. Mindless of the maid's presence, another exclaimed, "Alas, we are defeated. The task of figuring out whether it is day or night is too difficult. Any answer would be guesswork not born of logic."

The maid looked quizzically at the trio. She asked, "What was your task?" The third stated, "We were to determine if it were day or night outside." The maid briskly walked toward the wall. Pulling back the thick and heavy curtain from the window, she blurted, "There you are! I hope you can figure it out now!" Walking out of the room, she mutters under her breath, "Damned fools!"

Three Wise Men or Three Stooges

To identify the point where sustainable capitalism and financialism ramify, we must take a brief excursion into the works of eminent philosophers who significantly shaped Western political and economic thought. In their effort to explain how government evolved, three important Western philosophers separately attempted to draw pictures of man's existence before government existed. They gave renderings on man's existence in a pre-social state. Their treatises on pre-societal man are among the best known philosophical works. Their efforts have profoundly influenced Western thought. Nearly everyone who has matriculated in a Western institution of higher learning has been obliged to read the works of these thinkers. We speak of Hobbes, Locke, and Rousseau.[1]

The philosophers three employed a catchy, yet unsubstantiated concept, authoritatively calling it the "state of nature." By employing this concept, the trio substituted personal fiction for public history. Their mistakes have been casting us astray ever since. In effect, they took fiction, bleached it in elaborate jargon, then sold the tampered product as fact. As such, they were not earnest examiners of the past, but clever artisans of its redesign. Although aspects of their views would be different, all three converged to picture man in the state of nature as a loutish individualist. Their verdicts also were that government was "unnatural" and, thus, should be minimized because it affronted human nature.

These men deemed themselves experts on events that occurred beyond the reach of man's recorded past. Their teachings on the

state of nature were not rational, objective inquiries, despite the philosophical bent and jargon with which they were written. This was the stuff of supposition derived from social and political assumptions about their own times. Their findings were conclusions based on the illogic of their prejudices. Though cast as rationality, their contributions in this arena were more mythmaking than the objective pursuit of knowledge. Each writer crafted a picture of the state of nature that matched the outcome he wanted. The philosophers conducted no empirical research, nor could they. Such efforts were alien to them and their times. The disciplines of anthropology and archeology, did not acquire their legs until the 19th century. These men had little idea of how to systematically study the unwritten past. Their works reflect this lack of empirical insight. Thus, their writings did not attempt to depict how pre-governmental man actually lived. Instead, they wrote what they imagined. They wrote in order to conform the past to their philosophy and not to modify their philosophies to accord with the actual past.

The three "wise men," thus, presented an imaginary pre-societal state of human nature in order to buttress their arguments about the correct nature of the political economies of their eras. They held strong ideas about the channel their contemporary political economies should take. The trio provided their interpretations of the state of nature to furnish "primordial" evidence in support of their contemporary claims. However, the evidence was bogus. They should be sued for defamation of both history and human nature. They reasoned backward from their time to that of the "state of nature." Vainly attempting to be scientific, they blithely committed an error that an objective chronicler must rue. It is impossible to view the past with complete objectivity. Our reality determines what we know and how we arrange the facts and knowledge obtained. Our analysis of all things and any one thing is handicapped by epistemological limitation—the innate subjectivity of the human mental process. If our measurement of space and time is ultimately

relative, how much more subjective will be our measure of the twists and turns of man's relationship to man?

We seek objectivity, but never fully attain it. Yet, inaccessibility of the whole does not give excuse to discard the portion attainable. Inquiry should strive toward objectivity, with full knowledge that it is something we cannot possess in whole. Failure is not defined by falling short of the unattainable. Failure is found in not attempting to reach for it. This is where our three great men reveled in error. In effect, they sought to recreate the past in much the same way one contemplates the future. Theirs was a metaphysical journey that did not take them closer to unlocking fundamental truths about our human past. All they did was lock themselves in their own minds and go for strolls within these mental confines. "I think; therefore, I know." Yet, we must remember that what we think is always less accurate than what truly is.

Ironically, it was because they lived in a society that had reached a certain level of development that they were able to embark on their contemplative excursions. These men were relatively affluent and highly educated. They had the time and means to wrestle philosophical matters. As society grew more complex, it became more interlocked, but less communal. Society became more stratified and specialized; it was built more on large institutions than on relations based on consanguinity. These complicating transformations gave greater vent to the individualistic strivings of the human spirit than in times before. The increasing complexity of the political economy gave these philosophers the intellectual space and the individualistic bent to speculate that natural man was atomistic and isolated each from the other. Had they been written in much earlier times, their philosophies would not have seen the light of day. In those places where the divine right of kings and the infallibility of the church were the capstone of society, the work product of these three men would have been contraband discussed in hushed tones and read behind the closed door. Had any of them resided on the Iberian peninsula during the Inquisition, they would

not have written as they did, unless wedded to a masochist's delight for the rack.

Yet, much of the structure of Western political and economic thought is based upon their suppositions about the nature of man and the evolution of society and government. These works have shaped the minds of many and have influenced decisions of war and peace, wealth and destitution, and democracy and despotism. That so much has been staked on guesswork says more about the imperfect state of modern man than about what these philosophers could actually prove with their theories about natural man. These philosophers never really defined the state of nature. When did it actually exist? Where did it occur? Was it 200,000 or 20,000 years ago? Was the state of nature the same for people on the southern tip of Africa as for those inhabiting the Eurasian steppes? Was it the same for people who lived where food was plentiful as it was for those where food sources were scarce? None of these things were discussed nor described. Instead, the writers fed us a generic, universal state of nature, as if the world had been uniform in those distant times.

Before seeming too unforgiving of the philosophers three, we acknowledge that their contributions to humankind were immense. The gaps we identify here were, to a point, inevitable. The men could only go so far with their depictions given the aggregate knowledge of their times. If perchance this book perdures and is read 100 years from now, no doubt the reader will deem its ideas quaint or rudely chiseled. That is as it as it should be. Much of what we perceive as objective knowledge is but subjective notions uniquely fitted to our times. As times change and eras fade, so does the utility of the ideas that shaped them. Consequently, the great fault is not with the writers. They did the best they could. The greater fault rests with the subsequent, less imaginative generations. These generations took the treatises literally, although they had more knowledge at their disposal with which to dispute these works. Instead of critically reviewing and revising these imperfect ideas, subsequent thinkers

and leaders indiscriminately extrapolated from these ungrounded ideas to concoct philosophies so heavily weighted toward individualism that they contributed to the rise of today's financialism.

A gross inconsistency pervades what has evolved from the philosophers' composite works. According to this trio, individualism in the state of nature led to strife. Thus, society and government came into existence to blunt man's jagged conduct. However, a similarly unbridled individualism is supposed to harvest economic felicity in the modern day. Though bad for natural man, individualism is the tonic of modern man. If this dichotomy were true, it would connote a difference so cavernous between man then and man now that we would have to stop talking about human nature. It would be as if man could be divided into two species.

Hobbes and Locke: Different Roads to the Same End

A stark realist, Hobbes saw the state of nature as brutish and short. Men were perpetually in conflict. Belligerency was the dominant condition. Inhabitants of this world revolved around each other in orbits of relentless conflict. Man killed easily and was easily killed. Hobbes believed man was inherently martial and predisposed toward fisticuffs. A piece of fertile land, a fruitful tree, or a plump chicken were all conflicts in the making, should more than one person spot them. Man in the state of nature was a relentless combatant using any means necessary to acquire what he desired and keep what he had. There were no friends or neighbors, only adversaries who lived in proximity. Although Hobbes believed man was predisposed toward evil, he surmised that man's keen interest in self-preservation eventually throttled those baser instincts. Precisely because man could kill, he came to recognize that he must not. He who kills another person to gain an object today can meet the same fate tomorrow. License to kill became its own deterrent. This was the primordial doctrine of mutually assured destruction.

For Hobbes, the state and government were formed out of the recognition that men must bridle their natural inclinations. The state was established to negotiate a reduction in violence among men. The best way to regulate violence was to moderate competition for valued items. The Hobbesian social contract upon which government was founded was prohibitive and coercive in character. Government was intended to lift man out of the state of nature by controlling man's ability to enact his violent predilections. His was the secular version of Old Testament law. Hobbes would have been comfortable as one of the scribes of Deuteronomy: "Thou shall not...."

According to Hobbes, frequent competition was inimical to good health, because it generally led to violence. He recognized no invisible hand that would guide individual selfishness toward the greater good. He believed that, if left unchecked, selfishness would put every man's visible hands at another's visible throat. Because he saw man as intrinsically combative, he believed man needed coercive sedation. In his reckoning, the state was not formed to help man realize his individual and collective potential. The state was formed to keep man from self-destruction. In this worldview, the state is not an enabler but a prison guard.

Laws and regulations are made not to foster man's nature but to make him act with the civility that civilization requires of and imposes on him. Hobbes believed man was controlled by his appetite and not by reason. In the end, man would use his reason to justify the compulsions of his appetite. Although individualism was combative, it was also man's dominant outlook, according to Hobbes. For him, cooperation and collaboration were artificial and unnatural. Thus, to stay true to his nature without killing off the species, man had to channel this individualism into nonviolent activities. However, competition remained the definitional constant of the human circumstance. In very many ways, Hobbes is the spiritual father of the Social Darwinists and their viperous creed of survival of the fittest. He is also the uncle of militant free marketers and their adulation of the theory of creative destruction. His brand of thinking

has also given solace and intellectual refuge to more than one despot, who claimed his granite rule was the only thing separating those he ruled from anarchy.

John Locke offered a superficially more optimistic view of the nature of man. Locke postulated that every man's God-given rights were those of life, freedom, and the ownership of property. (Hobbes would say Providence had written off humankind after seeing how godless we were.) In that these rights were ordained divinely, they were universal and immutable. Man was justified in defending these rights from encroachment. Giving primacy to this trinity of rights indicates that Locke believed selfishness was man's nature. However, he also believed man was guided by Reason. By way of this rationality, man was sociable, humane, and cooperative, yet human interaction was minimal. Man lived in relative peace and with a primitive egalitarianism in the state of nature. However, Locke believed that natural law, like the civil law derived from it, could be violated. As the world became more complex, man drifted away from the original state of nature and man's condition drifted from its obeisance to natural law.

Giving us a secular equivalent to Adam and Eve's banishment from paradise, man's increased complexity led to violations of natural law. Population increases resulted in a decrease in available food, land and other resources. Shortages coupled with the advent of money produced economic inequality. Conflict and competition arose where none before existed. For Locke, increasing proximity and contact pushed man toward a more Hobbesian predicament. Thus, an agent was needed to correct the dishevelment. For Locke, government, via a social compact among those to be governed, was created to redress the violation of natural law and restore its core ideas as the guiding tenets of man's existence. Thus, the state was necessary to create man-made laws to preserve natural law amidst the complexity man had become as he departed the state of nature.

Locke saw individuals as basically decent. In small rudimentary social settings, the fineness of human nature was best displayed. However, the more collocated and complicated life grew, the more man became estranged from his sanguinary bent. If translated into numbers, Locke's conclusion would be that, left to our own devices, each one of us individually would solidly adhere to natural law. Perfect observance is a 10, reserved only for the Divine. Man would rate 9.5. Assuming the aggregate quality of social interaction was the product of this rate of man's observance times the number of people involved in the aggregate interaction. If interaction involved a small number of people, adherence to natural law remained high. Should the number of people involved reach merely into the hundreds, observance to natural law would run below 50 percent. Consequently, government must be instituted to counterbalance man's veer toward substandard observance of natural law. Government served as a magnet to pull man back to his original ways. Government would be the positive complexity that neutralized the negative consequences of man's unregulated evolution toward greater complexity.

While Locke and Hobbes appear antinomic, they are more similar than traditional interpretations suggest. Locke was not as tonally dismal as Hobbes; however, his greater optimism was partially due to greater disingenuousness. Locke's contentions were internally inconsistent. He claimed the irenic original state of nature became tempestuous due to emergent social complexity. Yet, how can movement toward complexity be an inherent part of the original state, while simultaneously undermining it? This would mean the nature of man was not of stable equilibrium, but was inherently dynamic in a way that fostered a complexity that brought instability and conflict. However, Locke refused to make this logical connection. Instead, he satisfied himself by describing this complexity as if achieved via an external imposition of mysterious origin. Locke, thus, concocted his own version of the snake in the Garden of Eden. While excellent folklore, this was shoddy treatment of an important philosophic point.

Locke mentioned the use of currency as part of the state of nature. However, the use of currency can only be had under conditions of agreed authority. Everyone would have to agree or accept a certain instrument as one of stipulated value for universal exchange. Such a complicated and important agreement, based on the reality of commercial exchange and the want to foster it, could not be had without society and some form of governance being in existence. Consequently, some of what Locke described as a state of nature more closely resembled a state of governance. Yet, if central elements of government existed in the state of nature, then Locke almost refuted his own thesis.

Locke asserted that man and the state of nature were governed by reason. However, this assertion did not jibe with his conclusion that the state of nature was imperiled by the increasing complexity caused by man's very actions. The obstacles and benefits that nature poses remain constant. Any change in man's relationship to himself must sprout from his own conduct. If governed by reason, man's conduct should not have jeopardized the state of nature to bring about a situation more deficient in reason and more touched by chaos than the initial state. Somehow, this dismal metamorphosis transpired according to Locke. In effect, Locke implied that the output of reason was conflictive irrationality. Yet, darkness cannot be the issue of light, nor can irrationality debouch from the fount of reason.

If every act of man were guided by reason, man would not commit actions that would later impair his ability to exercise reason. If reason were the driver, the very force of reason would have steered man from acts undermining the function of reason. Reason should have enabled man to see the irrational folly of increased complexity, then led him to take "reasonable action" to avoid the brackish consequences. However, if reason could not provide this function, it must be that reason was incomplete and fractional. Locke notwithstanding, man is not guided so much by reason, as by his own

reasons. Upon these less objective and more selfish thoughts, the bulk of human activity and history is constructed.

Attributing change in the state of nature to increased social complexity, instead of to the force of complex human nature, is like driving a car into the river then faulting the pier for ending too soon. Irrationality emanated from the conduct of man. In his natural state, man was and is an admixture of the rational and irrational. In other words, man in the state of nature was an imperfect embodiment of the good and the profane. In this, he was, as modern man remains. Thus, Locke's assertion that man in the state of nature was kind and cooperative as long as human interaction was minimal is equivalent to attempting to lug an elephant in a teabag. It is like asserting members of the Ku Klux Klan would no longer be racists if only people of different races were not in the vicinity.

If man were wholly cooperative and social, his natural inclination would have pointed toward increased interaction and complexity, without producing collateral strife. That increased interaction produced conflict meant that competition was as intrinsic to natural man as was cooperation. Locke tried his best to sidestep this dark puddle. Nonetheless, his breeches got sullied. Averting one problem, he oozed into the deeper problem of the internal inconsistency of his methods. He could never fully explain how a place initially governed by reason and equanimity could be overrun by chaos and conflict. Had Locke not tried to exorcise these demon spirits of man by attributing them to some impersonal abstraction, the distance between his outlook and that of Hobbes would have pared considerably. At bottom, Locke is a Hobbesian in idealist's clothing.

Those adhering to Locke still exalt individualism, seeing it as the tower constructed by reason. For them, as for Hobbes' intellectual progeny, government is unnatural and not intrinsic to man's existence. Government exists to mitigate conflict caused by complexity. Locke makes complexity his *diabolus ex machina* so that he does not have to blame man for what he has done to himself. In

keeping man blameless, Locke is also able to pardon reason from any culpability, thus, maintaining reason as an unerring compass pointing toward a democratic social contract.

In the final analysis, Locke was dishonest in his description of the past because he sought to win a political debate in his present. Locke was a republican Whig writing in the final decades of the 17th century. Whigs were in political and intellectual battle against Tory royalists during a period of political flux in England. Locke's purported philosophical inquiry into the state of nature was essentially Whig political propaganda. Supporting a strong monarchy, Tories traveled the Hobbesian boulevard that man was brutal and in need of a strong hand to stave his violent individualism. Locke and the Whigs wanted more democracy. They could not walk the path leading to the innate depravity of man, yet persist in their call for greater democracy and a lesser monarch. Thus, Locke and his fellow Whig thinkers developed the argument that man's individualism was not guttural and malevolent but was based on benign reason. In the context of that epoch, there were but two conceptual choices, each leading to two distinct, competing forms of government.

As time evolved and democracy achieved slow triumph over monarchy, the Hobbesian worldview would be expropriated by conservative democratic forces while the Lockean view would become favored by democracy's more liberal adherents. The Hobbesian view would become the intellectual bastion of conservative realists of later generations, while Locke's position would become the redoubt of the idealists. For Hobbesians, government is needed to keep us from destroying each other. For Locke's adherents, government's sole aim is to clean the streets of the refuse caused by inimical complexity so that man can pursue the famous trinity of individual rights—life, liberty, and property.

Rousseau: Small Pity for the Family of Man

Rousseau had a more nuanced view of the state of nature than either Locke or Hobbes. That Rousseau came from a society with subtle layers of more internal contradictions than England may have contributed to his more ornate creation. In some measure agreeing with Hobbes, Rousseau rejected the notion of man as inherently a social animal, although he clearly saw man as an animal. He described man in his natural state as mostly hermetic, peaceful, quiet, and with lack of foresight. Man acted only in the moment and had no lasting ties with any other human. In the state of nature, man was neither good nor bad. He was amoral and, if instigated, could be as feral as any four-legged beast. (Given the depredations modern man visits on his brother, this fictional ancestor does not seem any more bestial than today's edition. That the modern version neither growls nor howls does nothing to mitigate his fierceness. His thunderous weapons howl and growl for him.)

Rousseau recognized the existence of the family in the state of nature. He seemed to introduce it on one hand, only to eviscerated it in the next instance. He seemed to say that the permanent family unit as we know it did not exist in the state of nature but that the family unit was the first instance of natural society, once society began to form. Rousseau asserted that, in the state of nature, the family unit assembled only for the purpose of procreation and a minimalist nurturing children. Once a child was sufficiently grown and could survive independently, he would leave hearth and view his parents with a detachment equal to that given a stranger. This notion constitutes the dregs of foolishness. A child would feed from the maternal teat and paternal hand for years; at the point of maturity, he would be cast out to complete his education in adversity. Moreover, he would have no differentiated feelings for the parents who raised him. This scenario does not fit the description of a person given to natural human passions and impulses but someone nurtured under something more rigorous than the strictest Prussian

discipline. Such detachment does not fit the natural state and is more the accoutrement of utter regimentation.

Rousseau resorted to this dupery even though it contradicted the level of rudimentary thinking and planning Rousseau otherwise credited to man in the natural state. He hoisted himself onto this contradiction because it was the lesser of two dilemmas. This one merely impaired his interpretation. The other would have impaled it. Admitting the family unit existed as a permanent social arrangement would have necessitated the scraping of his entire thesis about the state of nature. To avoid such calamity, he committed this lamentable trespass against truth.

To his credit, Rousseau at least tried to grapple with the undisputable fact that people, even in a state of nature, were born of man and woman and did not appear like apparitions out of thin air. Unlike the other theorists, Rousseau tried to weave the fact of procreation, child rearing and family into the fabric of his theory. However, once he understood the implications, he wrongfully denuded the family of any meaning except for its minimal biological functions. Had he allowed for a fuller, more plausible interpretation of family, Rousseau would have been compelled to see it as a microcosm of society and government. The family is the fusional nuclear material from which society and government are created. Man in the state of nature is, thus, man in society and under governance.

Rousseau proffered the existence of the "biologic family" to escape the conclusion to which the "social family" would have led him. He concocted his theory because his overall picture of the state of nature required that natural man recognize no permanent bond of one person to another. The family was an expedient not an imperative for Rousseau's natural man. Yet, Rousseau's explanation cannot even satisfy itself. It leaves itself thirsty. If man had no permanent bonds and did not reflect on the future, he would not have been driven to participate even in Rousseau's eviscerated

limited family. There are three basic reasons to establish a family: 1) to preserve man's bloodline, 2) To provide physical protection, and 3) to enjoy the benefit of society with others. However, none of these factors would have appealed to the blunt-witted, shortsighted denizen of Rousseau's state of nature. Consequently, Rousseau was reduced to positing this theory of the "limited family" without adequately explaining why natural man would enlist in such an unnatural union. This concept of the limited family is as incongruous as pitching one's tent in the middle of the road.

For it to function, the limited family would have required more specialized and sophisticated agreements than those upon which the modern family is based. First, it would have required an understanding between the man and woman that they part after rearing their child. This would require an agreement on how possessions would be distributed and who would retain the dwelling. They would also have forged agreement on when the child had been sufficiently nurtured so as to be evicted from the transient familial nest. After having a relationship and a child with one person, could the man or woman engage another temporary spouse? In addition, the probability that multiple children would be produced by most unions would further complicate and prolong the association. Marital and family law practice must have been a lucrative vocation in the state of nature.

To make such a limited family work, questions regarding the spousal relationship had to be answered to the satisfaction of both man and woman. This limited arrangement could not be fashioned by happenstance. It could only last if established by clear custom. This means people would have known what was expected of them and what to expect of the other. For Rousseau, the information must have been transferred between generations by biological meme and not by social custom. With this, Rousseau walked the berm of make-believe. He had authored "*La Comedie Familiale.*"

Rousseau essentially caricatured family in the state of nature as a limited liability venture. Yet, the concept of limited partnerships is rather complex and would not seem to be the most likely foundations for man's early beginnings. In this regard, Rousseau seems to suggest that man started at the penthouse to work his way to the basement. Thus, Rousseau gives us this complex notion of a family akin to a limited partnership and asks us to believe this existed before social order. Such a system would require its practitioners to suppress their emotions. This implies sophistication not naturalness. In effect, Rousseau would have us believe natural man was highly complex but his society achieved only the barest minimum that human biology and nurturing required. In the end, his portrait of man in the state of nature is as untenable as Locke's and Hobbes's.

Society and Government as the State of Nature

This brief examination of the three philosophers was not an academic lark. This trio contributed significantly to western political and economic thought. Much of what we think about the role of government and its relationship to the individual is attributable to these men and their adherents. Some people will protest this book has been overly critical of thinkers long departed, that our trio did not intend their descriptions to be regarded as historic accounts. The philosophers merely and expressly intended these depictions as teaching devices to prove more important points about man and the role of government.

This defense is unsatisfactory. If the trio did not intend their work to reflect truth, their renderings hold no evidentiary weight. The values and conclusions emanating from their contributions should then have no more influence on political thought than any piece of literary fiction. However, these men set out to do more than add to the library of classical literature. They ventured to build a strong foundation for political philosophies that would direct the course of events. Such a foundation cannot be comprised of fiction.

Consequently, those who defend these men by claiming their accounts were not intended to depict reality do their heroes a disservice. By denying the philosophers intended to paint reality, they turn their heroes into counterfeiters. The men are revealed as writers who reached their conclusions first then constructed false histories to support them.

Although the three portraits of the state of nature substantially differ, they have an important common thread. They all see society and government as artificial. They all believe man in a state of nature is man absent discernible social order.

For them, government was not a positive good but an "unnatural," necessary evil. From this relegation, it is but one step to conclude government is more evil than it is necessary. This anti-government bias has leavened western thought for three centuries. For a significant portion of that time, the philosophy well served its adherents. On the positive side, it promoted and protected individual freedom from government encroachment. This elevation of individual rights is a crowning achievement of the western world. The latitude given individual creativity generated an unprecedented accumulation of knowledge and technology, launching an industrial eruption that changed the world and the way man lived in it. Upon this foundation, our current prosperity has been built.

However, no social philosophy is infallible even in the span of one historic moment let alone across the ages. This anti-government outlook is no exception. The perspective is not the work product of ineluctable reasoning. It became fertile at a certain stage in human history. The emerging democrats of the 17th and 18th centuries railed against strong monarchy and the caprice associated with it. They reviewed the long catalogue of depravity and deadly foolishness committed by the monarchs of their and previous eras. Most of what they saw was spillage of blood and the suppression of the many. They correctly concluded that the monarchism of their day was arbitrary, lethal, and unproductive. Since monarchy was bad and

represented assertive "big" government, it was easy to conclude all forms of big government were bad and prone to similar trespass. Although this conclusion was predicated on less than pristine theoretic logic, it became the dominant tenet because it provided a convincing explanation for the political economy for quite a long period.

We live in a period where this aversion to government may not have lost its charm but objectively it has reached a point of declining utility. No longer is it a compelling truth. At best, this concept occupies the same position Newtonian mechanics did upon the advent of Einstein's concepts of relativity. Worse, it may well be just a half-truth in route to becoming no more than the recurrent bedtime fable of old men with narrow minds. Society, ever dynamic, has advanced to a stage of complexity never envisioned by those who first trumpeted this philosophy. The rules of the road they authored have become less applicable. The road has changed.

Given the accumulated complexity of life, today's individual is much more a solitary specialist and less able to sustain himself by himself. We do not grow our food, make our own clothing, or build our homes, cars, or airplanes. Thus, we rely on government to oversee and regulate important social and economic functions that rest beyond the ken of the layman. Life is vastly different and more complex than in prior times. For instance, today's monarchs are a far cry from the power-mongers that ruled yesterday. Today's crowned heads are mostly ceremonial and yield little governmental power save that of moral suasion. They are far removed from the craven menaces who wore the diadem before them. Now, the monarch stands for the higher consciousness and the lofty aspects of their nations. They are no longer the incarnadine kings and queens of old but modern symbols of state and stately righteousness. The mailed fist has been replaced by an avuncular nod. It is presently easier for a mid-level bureaucrat to be oppressive than for the Queen of England to show the slightest twinkle of political ambition.

The advent of financialism and the structural tension visited on the global economy by the recent financial crisis reveal the widening gap between individualistic philosophy and our collective reality. At its core, financialism is but the quadrangular marriage of individualism, opposition to government, the mistaken concept that money is wealth, and torrential greed. For political and economic progress to continue, we must reassess old theories in light of the material changes in social fact and circumstance wrought since the trio of theories were propounded. Some of the intervening changes were even wrought by the application of the old theories themselves. If we do so objectively, we will discern the outlines of a philosophy recasting the relationship of government to man as not inherently antagonistic. This implies a greater role for government in shaping and sustaining financial and economic activity. Locke was right in part. This greater role is based upon the dynamic complexity of society. It is also warranted due to the accretion of knowledge and expertise to government over the years, decades, and centuries. Though it has its flaws, government is a more knowledgeable, restrained entity than in the past. Because of this relatively benign evolution, government has developed into more of a positive buttress for society and a catalyst for economic life than in most prior eras.

The belief that governmental action is always inferior to individual action is an incontinent myth created by acolytes of our philosophers three. In this regard, the philosophers' depiction of the state of nature bears correction so that we may paint a more accurate mural of the role of government and its relationship to economic man. Let us begin with the profound omission that the philosophers never wholly explained: Why did man feel compelled to abandon the state of nature for one of social order? If the state of nature were truly a natural state, it would not have been extinguished by the people who constituted it. A state of nature implies equilibrium. Every animal is content in his natural state and seeks not to change it. If the innate state of man was that of brutish isolation, he would remain in such, meaning you would not be in the

sad position of reading this book. You would be pulling roots to eat, chasing wild rabbits, or being chased by people wilder than you. The cold fact is our philosophers gave us a state of nature that was instable. It was not something that could remain as it was. Man so detested his state of nature that he terminated it by establishing government and society. How could a state of nature be worthy of the name yet be so unbearable to those who lived it? Apparently, it was a condition of destructive disequilibrium. This does not sound like a state of nature. It sounds more like the state of flux.

Man could not remain in the place they portrayed because man is both social and individualistic. His social abilities enable him to create and adapt to circumstances. The wide streak of individualism feeds his impulse for change that can be either creative or destructive. Individualism demands that man demand change from himself and his environment. Thus, he not only adapts to his environment; he reshapes it. In so doing, he recasts society to fit the alterations made to the physical environment. The flow of change may go in the opposite direction. Man may change society. The way he changes society may cause him to amend how he orders the environment around him.

Man represents a jumble of change and continuity. He is simultaneously in divergent conflict and convergent harmony with himself and his surroundings. That which he likes, he maintains even though not optimally beneficial. That which irritates him, he seeks to discard even if salutary. The environment and society are both his hearth and a mound of potter's clay at the same time. At once, he lives in them but also tries to fashion them into the image he most wants them to be.

Hobbes posits that conflict and contention drove men toward social order and government. Locke points to conflicts and contentions arising from greater complexity and human interaction. Rousseau is a bit more serpentine; he admits to the existence of family but elects not to make it the ever-present nucleus of society

and governance. He claims the family evolved into this role as man departed the state of nature. He forwarded this claim because to admit that the permanent family unit existed from the onset of human life would undermine the philosophical edifice he sought to erect.

Similarly, none of them could assert that the threat to man's existence in the state of nature was posed by non-human corporeal forces. That was a lie too wide to traverse. Man feared not extinction due to a threat from flora or fauna. While the environment might have been harsh, it did not portend man's erasure. Moreover, the overall natural ecology remained constant. It could not have forced man from remaining in the state of nature since it was integral to that very state. If the threat to man did not arise from non-human sources, there was but one culprit left. The only agency that threatened man was man. There was nothing more competitive than man himself. Man probably invented the spear to hunt game but he perfected it and subsequent weapons to subdue his brother. The conflict and violence that supposedly forced man to exit the state of nature was not some artificial imposition. Man found himself fighting other men over things considered so valuable to life and existence that he was willing to risk life and existence to possess them. Competition, conflict, and violence are part of the human condition. They are the benighted side of individualism.

From the very moment of human existence, man competed one against the other for things considered precious to life or happiness. Each strove for the best area to settle, for the best farmland, for game, and for available water. Inherent in man is the concept of possession. But man did not exercise this concept vis-á-vis other animals the same way he exercised it against himself. A man possessed or owned a piece of land not so much with regard to the wild animals that might cross through or even inhabit it but with regard to other men. He was annoyed and discomfited by animal encroachment but only felt his possession threatened when another man approached. This fact of competition and conflict implies man

was in sufficiently close proximity with his fellow that both could want and contest for the same, functionally indivisible things at the same time.

If we take this idea to its extreme conclusion, the state of nature should have degenerated into a place of infinite, ceaseless conflict. Everyone would be the other's enemy. This would have made Hobbes gleeful, and it is what he would have us believe. Yet, if conflict were the only thing man knew in the state of nature he would not have been able to innovate a pacific modus vivendi— government— to break the violence. There would have been no precedent, no logical basis to expect man could agree to create a system resolving disputes short of violence. Hobbes's assertion that man's awareness of his ability to kill meant he also understood he could be killed would have been inadequate by itself to push man toward society and government. To believe that government was attainable, man would already have experienced instances of cooperative, peaceful living.

No man would enter into such an important social pact with others unless convinced the others could exercise peaceful restraint. No sane person would drop his guard in order to neighbor with an unrepentant marauder. Living in close proximity to someone requires having sufficient faith in that person's relative peacefulness to allow you to close your eyes at night, believing you will awake safely the next morning. This is the side of the state of nature ignored by our stalwart writers. Instead of a world of ceaseless battle, it is more reasonable to believe man's development as a human being and government's incremental evolution into a benign institution are currents of the same stream since man and society are as inseparable as water and wetness. Thus, our three philosophers, particularly Hobbes, can be credited for painting a large portion of the human picture, albeit the negative aspects.

The State of Nature Is Man the Social Being

Man in his natural state is a social being influenced by individual desires and ambitions. Even then, many of his desires and ambitions only can occur within the confines of human interaction. Man is given to isolation and solitude but only in respite to an otherwise collective existence. Man is not born alone. He is born of family. Usually, modern politicians make clattering declarations that are usually less meaningful than the sum of the words employed to say them. When they proclaim that family is the cornerstone of society, it is one of the rare moments they actually say something more profound than what they intended.

The family structure is the central chamber around which the edifice that is society and government has been constructed. Man did not develop as an individual. Far from the isolated, frightened man the philosophers painted, common sense reveals something different. From the beginning, man was part of a group and developed as such. This is the nature of man. Man embarked on great migratory treks from Africa to the other corners of the world. He did not do this as serial excursions of one isolated man after another. The trek was conducted by organized groups of related people.

A child is born of man and woman. However, even in the most elementary state of nature, it is unlikely that only the parents were present when a child was born. Other relatives would be attendant to help with child delivery and rearing. If you believe the three philosophers, man and woman would have met by happenstance, cohabited as if by lease agreement, and parted on the quick. By coincidence, two hermetic strangers would meet in the field in want of food or at a riverbank in search of water. Instantaneously, the two would decide to mate, at least this is what the philosophers three imply. Cupid's arrow flew just as quickly then as it does now, even though natural man would have known nothing of Cupid and the arrows with which natural man were most familiar were nothing

amorous. Attraction at first sight is and was possible; however, it has never been the epoxy of most unions. More probably, father and mother knew each other beforehand and belonged to the same community. Proximity, aligned with compatibility, caused people to join more so than did some instantaneous reaction occasioned by a happenstance encounter of strangers in a hostile environment. In the main, forming a relationship required a preexisting community to establish the context for the relationship.

In the state of nature, which is really another term for early society, physical strength was at a premium and this is why men generally assumed the leadership role in most societies. Human and family histories are replete with instances of that role being abused but also being performed effectively. While family circumstances differed according to the abilities and personalities of family members and of the bounty that the immediate environment yielded, the general rule was that the family worked together under a hierarchal structure. In times of abundance as well as of insufficiency, families remained intact. In the main, parents would continue to look after the young when there was no discernible short-term benefit for doing so. In the end, members of the family would be rewarded for doing things that lent benefit and be punished when they did things of detriment. From the very onset, man would have experienced the tension between individual and collective interests and would have learned to balance these differences in order to maintain his life and that of other family members. In their analyses, Hobbes and, to a lesser degree, Locke were guilty of treating the family cursorily because the implications of its existence could not be reconciled with their portrayal of man as an isolated being in the state of nature. Rousseau honestly recognized the existence of the family only to dishonestly ascribe to it a shallowness belying common sense. He invented the tortured fiction of the family in the state of nature as a temporary contrivance that disbanded voluntarily as soon as a child attained self-sufficiency. To believe a child could be raised of mother and father under a preexisting agreement to sever all three lines of this

triangular relationship when the child reached a certain maturity is beyond reason. This would be impossibly ice hearted and contradictory of all notions of the familial relationship. Moreover, it would implicitly ascribe to the institutions of government and society, the authorship for the most profoundly human emotions, such as love and loyalty. For Rousseau, these and other sentiments would have to be construed as byproducts of the creation of government and civil society. While the workings or ill workings of government can make one emotional, government is not the creative source of man's emotions. Such a conclusion is a non sequitur.

Thus, man's first families could not have been discrete institutions of limited duration. Family was indefinite and ever-present due to the bonds that developed over the years. There were heated conflicts within families some of which led to the demise of individual members or destruction of whole families. Yet, these nuclei of human interaction survived and proliferated. Families grew in number and size. Siblings produced their own families. These related families lived in close proximity, interacting with each other and sharing resources. These families would also interact with other nearby families. Clans formed. Social organization became more complex to match the growing number of human interactions over finite resources. An arithmetic increase in population produced a geometric increase in the number of social interactions and relationships. Customs and rules developed around these interactions and relationships.

Here the tension between individual and group interests became more pronounced than in the simple familial setting. Due to the weight of consanguinity, clan members valued their group affiliation. The utility of the group became more salient when other groups emerged to threaten the original group and individuals in it. Yet, on the other hand, a man would not harbor for distant members of the clan the same intensity of feeling held for more immediate family members. Each individual and family within the clan had their own hierarchy of feelings and loyalties as they pertained to other

individuals and families within the clan. Thus, rivalry and competition born of familial differences were ever present because the clan was not as monolithic as the family (And, no family was completely monolithic. History is replete with deadly examples of sibling rivalry and spousal antagonism). The dynamics between individual interests and collective clan interests, as well as between the different sets of sub-clan interests produced an endless tussle between unity and division within the clan.

Here, the meaning of man as a social being comes into full flavor. Man in the state of nature was social not solitary. Here one should distinguish between social and sociable. Man was and is often the former without being the latter. "Sociable" connotes being cordial and good company. In this sense, "social" implies being driven to interact with others. However, this interaction can be harmonious or conflictive. Man is finitely sociable but almost infinitely social. Man cannot exist without his fellow, but he can also kill, maim, or enslave him. One fellow can be his beloved friend and another can be his dreaded foe. Man's character has both cooperative and combative traits. Man is moved to live in peace and happiness with friend and family but is equally moved to aggress his enemies.

If we were inclined toward hermitage, chances of conflict would be minimized because we would not frequently encounter one another. Moreover, we would eschew fighting that would bring us into violent communion with each other. We would withdraw from the source of the conflict; in doing so, we would maintain our separation from the next fellow. Yet, man does not act in this singularly hermetic manner. Man is a creature of accord and strife. We pursue an embrace from a loved one with the same fervor that we fight an enemy. We cherish both kiss and sword. We love and hate in ample portion.

Man is unique among living beings in his ability to pass knowledge to others and thus to build and enhance his collective knowledge across generations. This cumulative ability coupled with

the growth of population caused people to develop more layered and complex lives. Man learned to tame fire and build wheels. He learned how to sow and harvest. He domesticated animals, and they, in part, helped domesticate him. Agriculture was born. He traded and bartered. Economics became possible. He spoke and made poems and created music from instruments fashioned by his own hand. Yet, he also evolved instruments and tactics of war. Much of the advance of technology can be attributed to man's thirst to gain martial advantage over his proximate enemy.

Social order and government increased in complexity as man did. Society is man, and man is society. That he has individualistic striving makes him no less social. However, it produces tension. Many of his individual pursuits cannot be achieved without society, yet many such pursuits may well be counterproductive to the welfare of society. Inherent in man's social dealings is both cooperation and competition. In this aspect, Locke got closer to the truth in stating that in an increasingly complex society, man is a hybrid of cooperation and competition. He erred in claiming that the increased social complexity was something that happened to man. It was not something that happened to man. It was man. Society became more layered and complicated because this is as man's nature would have it.

The story of man in the state of nature is not the fictitious story of solitary man suddenly emerging from the primal woods to confabulate with others in solemnizing a social compact that had no precedents or antecedents. Instead, the story of man in the state of nature is one of man trying to modify extant social convention to fit his optimal individual interests, while not rending society apart. It is man trying to better himself by working with friends and against foe. Man is apt to cooperate in mutual effort with his peers but is also tempted to throttle his inferior. Man is both an economic animal and a martial warrior. As an economic agent, he competes and conflicts with others. As a warrior, he forms strong bonds of affection with other fighters on his side of the battlement. Man is perpetual irony

and paradox. The story of the state of nature is that of an indefinite, unbroken cycle of cooperation, competition, conflict, conciliation, and back again. In the end, the state of nature is timeless and remains with us. It is but the state of constant interaction and change. Modern man is as much its inhabitant as were his forebears.

Chapter Four

The Sides of the Human Coin: Cooperation and Conflict

Necessity may be the mother of invention, but scarcity is the father of all else.

Man is society and society is man. However, man is not always sociable. Some form of society, some basic human interaction, has been with us since the beginning. The concept of man in the state of nature that is distinct from man the social being is a contrivance that ought not to be entertained. Every epoch has its compelling ideas and facts, which latter ages ridicule as the froth of myth. The belief in isolated man in the state of nature is an example of this evolution in human knowledge. A few centuries ago, the idea was deemed the revelation of perceptive genius. Now, it is a quaint fiction that pesters reality. Time may heal all wounds, except those inflicted by the philosopher; time unmasks his once venerable theorems as quackery. Those who continue to follow them beyond their useful shelf lives are as lemmings marching into a fire.

Man is a complex mingling of cooperative and competitive sentience and impulse. One trait is the best of man. The other can reveal man at his worst. Both are part of our essence; neither can be excised from our nature nor from the history we have created nor the future we shall build. Man rushes into war, yet struggles to hold onto peace. Peaceful cooperation yields greater prosperity but is most elusive to maintain. Confrontation comes easily, but deprives both instigator and victim the quiet enjoyment of their possessions and life itself. Man celebrates entry into war but laments its continuance. Man is awash in contradictions. Conflicted and morally

amphibious, he knows not if his home is land or sea. When on land, he craves the water. At sea, he dreams of solid ground. Man is an eruptive mixture of the profound and profane, truth and falsehood, knowledge and ignorance, hate and love, reason and incoherence.

Because of this inherent duality, man must regulate himself. Yet, because of these very complexities, his self-regulation falls short of what is required; his self-governance is imperfect at both the individual and collective levels. He is always seeking to find balance, but the dynamism of his very nature precludes the objective he seeks. He is fated to struggle between cooperation and conflict, peace and war. To attain perfection, he will have to wait until called to heaven or until heaven comes to earth.

In the great hall, all the king's counselors had gathered to debate a matter of vexing danger. A dreaded army moved in relentless march toward the city. This juggernaut would be at the city gates within a fortnight, unless something stopped it, yet there seemed to be no power on earth that could. An invincible force was marching towards them. This army had laid siege and brought down every fortification in its way. The horde had laid waste to cities mightier than this one, pillaging them of all treasure and scattering their inhabitants to the four winds of tribulation. In this army's wake, not a blade of grass remained untrampled. Now, the army was headed for this affluent, peaceful city to seize its richest prize to date.

The clamor in the hall was deafening. Despite the high ceilings arching toward the heavens, the air was dense and perspiring with fear. Yet, one small group stood coldly and clench-jawed, glaring at the rest. This small circle formed the war party. They advocated that the city prepare for siege and to withstand the rushing foe. The larger group was beyond such heroic calculation; its members already had allowed trepidation to reduce them to a shabby rabble. Men of achievement and status wore panic and tears on their faces. Usually confident men cowered. Each advocated some form of capitulation. They spoke but it was fear that ruled their tongues. The

timbre of their voices was that of a child waking from a nightmare. They begged the king to sue for peace before the peace was broken and the first blow struck.

Above the din, the king spoke. He said he had heard both arguments: the one for gallant defense and the other for abject surrender. He said neither was satisfactory, as both would lead to the same desolation. The lone difference was whether they opened the door to the insuperable attacker or presented the invader with the minor inconvenience of having to kick it down.

The invader was too strong to fight, but too ruthless to extend mercy to the city. The hall quieted as the king stated the intractable dilemma. The king said the city should neither fight nor surrender. He said the best tack against a stronger foe was to entice it to fight itself. All looked at each other in puzzlement. Many surmised that fear had so gripped the king that he had lost contact with his senses, reducing him to silly riddles.

The monarch declared the invading army was 10,000 strong. He explained that, when the army was two day's march from the city, he would lay ambush against it with but half of that number. Everyone gasped. Surely, madness had overtaken the good king. A panicked advisor shrieked that the enemy was fierce and terrible; it was commonly told that each of its warriors could get the better of four normal mortals. Pandemonium stalked the floor of the great hall with each man turning to his nearest colleague for comfort; upon finding none, each quickly turned to his other side and then to anyone.

Bemused, the king watched the feckless spectacle for a moment. He proclaimed that the advisor's caution was true but irrelevant. His ambush would not be of men. Men of sharp weapons but timid hearts were of no use. He then exited the august space, leaving the advisors to debate among themselves. He had a plan, but dared not

inform the entire assembly. Fear had already turned more than one of his counselors into traitors.

When the invaders were four days from the city, the king took 2,500 bars of gold and 2,500 bars of silver from the stronghold. He then ordered his army to prepare itself for rapid march. They marched two days and nights. At a certain point along the highway, the king ordered that all the bars of gold and silver be stacked across the road, gold on one side, silver on the other. He then ordered his men to fade into the bush.

Soon the fierce army was sighted. As it approached, the king whispered to his favorite general, "Ah, they are a formidable presence. Now, watch the unerring strike of greed!" When the warriors saw what lay before them, they rushed to grab the bars. At the sight of easy treasure, they forgot they were a fine army. Martial cohesion melted at the sight of gold and silver; each man became an army, a nation, unto himself. Upon discovering that the bars were insufficient for all, they all drew weapons. They became a mob battling itself. Those that did not yet have a bar fell upon those who did; half of the army was destroyed. Those who had silver became envious of those holding the more precious gold bars. They fell upon their brethren; half of the remaining half was put away.

The survivors were badly wounded and tired from fighting their compatriots. Struggling to lay hands on the gold and silver, they placed their weapons aside. They were no longer warriors, but scavengers. At this point, the king ordered his army to debouch, laying waste to the weary remnant.

His men exterminated them with great purpose. As they looked about the scene of their victory, not only had they bested the unbeatable foe, they won all of the bounty the dead army had seized from their prior conquests. The king's men did not have the mulish strength of the now dead warriors and could not carry the loads upon their backs as those warriors had. There was so much to

convey that the king's men had to devise novel ways to tote the massive hoard.

They set back for home. A day's march from the city, the king halted his men.

> "This is a bad thing we do," he thought. "Our position as heroes will last but one night. Upon realizing that mortal danger had passed, many in the city will envy the trove the returning soldiers now carry. Should we return with this bounty, enmity will come upon us. The other soldiers and citizens will conspire to gain the captured treasure. We will foolishly subject ourselves to the fate just visited on the invaders."

The king ordered the men to drop their loads where they stood. They would march back to the city as they marched away from it. However, the king told his most loyal general to dispatch messengers to the other two outlying kingdoms not yet touched by the invaders. He bade that:

> "The messengers feign to be homeless mendicants who make news about a great treasure they discovered in the woods. Once the greedy kings of these lands hear this, they will rush in with their armies but without thinking. They shall meet face to face at the foot of the treasure. Each army shall delete the other from the face of the earth. We will march into their cities and claim them as our own without the whimper of a fight. We shall become the richest, most powerful of the kingdoms because the greed of the others has led them to annihilate themselves."

Scarcity, the wellspring of greed, has been the catalyst of much of human history. Let us assume the antithesis of the Hobbesian state

of nature. This is an Edenic paradise where each person has all he wishes, without worry or labor. All that is required is to call things forth, and forth they will come. In such a state, there is no competition for limited and precious things because nothing is precious or limited. There is no reason for contest, challenge, or war. Still, violence will ignite occasionally for no other reason than man sometimes acts without reason. The thrill of breakage is part of human nature. Sometimes, man contends with himself simply because he can.

Yet, strong antagonism will be minimized, as will be strong congenial attachment. Many people will be largely individualistic. They will have no compelling reason to bond to any group since they can meet the totality of their own needs and wants. While many will be highly individualistic, they will not be considered selfish by others because all have the ability to sate themselves without denying another's wants. In such an environment, selfishness becomes an irrelevant concept. One can only be selfish in the context of limit or scarcity. If there are 10 people for 10 portions of food, and one man eats eight, the rest justifiably may call him selfish. If near starvation, they will deem themselves justified in beating the food, and anything else, out of him. In a situation of unlimited comestibles, the man can eat 20 or 30 helpings, yet nothing will be said of him and nothing done to him apart from the corpulent manifestation of his own gluttony.

This state of paradise is appealing in a certain sense. Like the Hobbesian state of nature, it is fiction. Man has never had at hand all he wants. Too often, the things in hand are things he no longer wants. A common predilection is to want what is not there and resent what is. Man is never fulfilled. He strives always toward what rests outside his reach. The quest to acquire is often dearer to man than the acquisition itself. The question then becomes whether the quest is done in concert with or in conflict against other people.

More so than the philosopher's state of nature, this mythic state of perpetual abundance is the appropriate counterpoise to the reality of our limited environment. The comparison between the unreal land of cornucopia and the real world of vexatious dearth enables us to grasp the tremendous role scarcity has played in the evolution of man and his institutions.

Scarcity: The Omnipresent Lack and Guide to the Ways of Man

Our definition for scarcity is not complex. Scarcity can be defined as man's perception that all things he needs or values are of such a limited supply that everyone's minimal desire to possess them cannot be satisfied at the same time. This doctrine of scarcity means man lives in a finite space with finite resources. Each living space is differently finite. Each has its distinct catalogue of resources, but all such spaces and resources are limited. Moreover, man's ability to acquire and keep what he wants is finite—circumscribed by his physical and mental abilities to realize his goals. Because he is of finite ability, whatever man attempts is finite. With his fellow man, he can neither love nor hate them all. Those he loves, he cannot love in the same proportion—the same goes for those he hates. He cannot cooperate with all nor can he contest against all. He can neither build all that he wants nor raze all that he despises. While man can imagine such absolutes, he cannot reach them.

The scenarios painted below are not intended to construct a systematic picture of how man moved from early rudimentary social constructs into more complex institutions. Our scenarios bound across the hills and vales of history in no sequential order. They travel between real situations and theoretical musings. We seek not to formulate a comprehensive theory of society for the ages. Rather, our task is to highlight scarcity's centrality in the human story.

The combination of man as a social animal and scarcity as his constant companion means that, in order to gain the most from his

interminable encounter with scarcity, man navigates from engaging in conflict in one instance to embracing cooperation in another. Depending on the level of scarcity and the underlying relationship between man and his proximate fellows, scarcity can beckon fighting or friendship. The following scenarios are intended to give insight into how conflictive and cooperative social relations arise. By better understanding competition and conflict, we will hopefully better manage the economic tensions inherent in financialism. By reducing the tensions caused by financialism so they do not lead to a repeat of the tortuous 2008 recession, we place our economy on more sustainable footing.

Scarcity can be divided into three major and distinct aspects: 1) insufficient quantity of a life-essential good, 2) insufficient quantity of desired but unessential material or intangible things, and 3) insufficiency of human endeavor to obtain either an essential or desired item.

The most commonly understood aspect of scarcity is the simple, straightforward paucity or absence of something essential to life. Man perishes absent food and water. He always seeks these things. The second scarcity is the absolute or real lack of something valued or desired. For instance, we all value gold but all do not possess it. It is not required to live; but, after man meets his life needs, his mind drifts to riches. After man meets his life needs, scarcity transforms into a relative construct. Man first measures his well-being in absolute terms of what he needs to survive; once physical survival is secured, he gives greater weight to how his holdings compare to those of people around him. A man with four cows when all around him own but one is more contented than the man who owns six while each neighbor possesses a dozen. In this scenario, each man can live beyond survival, but this certainty is insufficient satisfaction. Few men are happy being described as poor but fed. In all instances, those with the least struggle for more, and those with the most strive to compound their advantage.

That man measures his aggregate well-being in both absolute and relative terms suggests he also assigns specific values to individual items according to the same binary consideration. For example, a hungry man will fight another for a loaf of bread and ignore the expensive suit lying on the ground. The suit may be more costly and scarcer than the bread in objective economic terms. However, in terms of what he has and does not have, fighting for the suit is not worth the exertion. The bread is. Once his stomach is banqueted, however, the man returns to claim the suit.

Gold and silver are precious because they are universally rare, albeit rarer in some places than others. Rarity helped elevate these metals to the status of universal currencies. A currency is nothing but an agreed symbol of value. Wealth is the abundant possession of things considered valuable. Seen from a different perspective, money is an inverted measure of scarcity. In our fictitious state of perpetual and wholesome abundance, where all that is needed or desired is easily attainable, money has no place because there is neither absolute nor relative scarcity. With no scarcity, there is no commerce. With no commerce, there is no agreed valuation. With no consensus measure of valuation, there can be no money.

The very idea of money exists within the context of man's attempt to address scarcity by exchanging with another person, one item for another. In a world where everyone is wholly autarkic, exchange does not exist. Money is an indecipherable concept. Exchange only presents itself in an environment of scarcity. Absolute scarcity is not even required. Relative scarcity will suffice.

Many pre-colonial African societies used cowry shells for money. Instead of observing this long-standing convention, the acquisitive European explorers quickly sabotaged these African economies by flooding them with cowry shells gathered from other locations where the shells were abundant. They debased the African currencies and inflated the economies to the point of injury. Conversely, when the Conquistadors discovered gold in relative

abundance in the Incan and Mayan civilizations, the invaders simply stole the gold at musket point and shipped it to Iberia. Ironically, by injecting such massive amounts of purloined gold into the Spanish economy in a relatively short time, these adventurers ignited an inflationary spiral that mangled imperial Spain's economy for good, prompting its descent from the exalted position as the strong man of Europe. Both above-mentioned cases are instances of relative situational scarcity, where a party recognized that an item was scarcer and more valuable in one place than in another.

In these instances, scarcity became a source of competition and conflict when the stronger party acted to decrease its scarcity quotient and better its already superior position at the unfair expense of the weaker party. In both cases, the stronger moved an item from a location where it was relatively more common to one where it was noticeably dearer. In the situation with the cowry, the explorers took the shells to another place in order to exchange them for things considered more valuable. While superficially a cooperative commercial exchange or barter, this was a subtle confiscation, a form of dupery or counterfeiting. As such, it was also an implicit form of conflict in that one party was trying to subvert the rules of commercial exchange to deprive the other party of the just value of his goods. The circumstance surrounding the gold and silver of the New World was less subtle. The Conquistadors quickly dispensed with the fiction of engaging in trade with their hosts. The Spaniards simply forced the natives to labor in the mines, pilfered what they wanted and subjected to lethal punishment those Native Americans with the temerity to object. In this instance, the scarcity of gold resulted in one group initiating conflict with another to obtain the rare object.

The difference in treatment in the two instances has nothing to do with the relative kindness of the different invaders or with different degrees of affability of the victims. The divergence results from the difference in the relative scarcity and value of the items involved. Gold and silver, and the subsequent purchases they

facilitated, were more substantial than what could be obtained through the cowry shell economies. Wherever Europeans identified precious items like gold and silver in Africa, their conduct turned to the brutality meted against the South and Central Americans. When the trade in Africa turned from commerce in things to the trade in people, the resultant brutality surpassed that of European pilferage of South American gold and silver. This human trafficking was also based on scarcity. There were not enough able bodies in the New World to support colonists' economic designs. They resolved the labor shortage through enslaving Africans. In this instance, the European colonists did not require the help of the African to survive the New World. The African was not indispensable. However, slaves were deemed essential to meet colonists' desire to live something better than a hardscrabble existence.

The Scarcity that Brings the Most Social Conflict

This underscores a key point. Scarcity and man's behavior in the face of it, whether he cooperates with his fellow or combats him, have little to do with the essential or nonessential character of the object of desire. Man will fight and maim his brother over a relative luxury just as he will over essential food and water. As such, scarcity is as much a subjective state of desire as it is an objective fact of biological survival. As transatlantic slavery showed, one man will turn another into chattel in order to catalyze his own evolution from one stage of macroeconomic scarcity to another more complex, and productive stage, where scarcity for him is less biting. Just as man enslaved others to provide the cheap labor needed to fuel elementary capitalism, 21st-century financialists have no compulsion in making higher and higher profits by manacling their poorer contemporaries, as well as whole governments, in the prison of debt.

This brings us to the third aspect of scarcity. Despite the fact that most forms of scarcity eventually can be distilled to the want of some material possession, there is another form of scarcity, a procedural

scarcity that pits man against man. Sometimes the desired item is in adequate numerical supply, but the process of acquiring it is ponderous or unpleasant. Imagine a tree laden with delicious apples. All can see the apples. Picking an apple is, by itself, a placid endeavor. All other things aside, the person wanting an apple can easily pick it himself. However, sometimes all other things are not put aside. Often, obstacles loom. In this instance, our bountiful tree is the home of a pack of stubborn skunks who consider themselves the guardians of the tree. They direct their dreaded spray at anyone who nears it. Few people venture close. Thus, the tree stands so handsomely laden and attractive to those who value its fruit.

The object is desirable, but the labor required is loathsome. If the person were on the verge of mortal hunger and the apples were the only edible food accessible, he would brave the noxious ordeal to keep his life. However, if the situation were less grave, the person eyeing the apple would contemplate ways he could get another to perform the disagreeable task. The more powerful the person wanting the fruit, the more likely he would force another person to undertake the pungent endeavor.

Thus, we happen upon another form of scarcity. This is the scarcity of certain activities needed to procure or produce a wanted item. Many labor activities are attractive to most human beings. There is no shortage of those willing to undertake them. However, the less inviting an activity, the less likely people will voluntarily undertake them even to procure a wanted item. The level of assets and weaknesses of the person wanting the item, relative to the assets and weaknesses of people accessible to him to perform the ugly labor, will be major determinants in whether the person selects to coerce or coax others to do the work or whether he winds up doing it himself. Additionally, the value he places on the object itself will determine if he opts for a cooperative undertaking or will seek to force someone to gain the desired object for him. The degree to which the labor is repellant will also determine which of the two paths is taken.

Someone with money but little physical power will pay another to perform the untidy task. If the labor is too onerous, the payment required to get someone to agree to the job may be so high as to be economically infeasible for the person seeking the item. For instance, there was no amount of money that the owners of slaving enterprises could have paid the black Africans to take the bleak, deadly Middle Passage in order to work the plantation fields of the strange New World. Had they been asked their price for this dismal journey and back-wrenching labor, the amount stated would have bankrupted their captors. Thus, the slaves were never asked. They were compelled by force of superior arms.

If the labor is too onerous but the object wanted is highly valuable, the wealthy will resort to paying the strong to force the weak to do the awful job. If this is a simple short-term endeavor, he will employ just enough force for just enough time to accomplish the task. However, if it is a long-term enterprise, he will employ significant force, in such a systemic manner that it deters the victim from actively opposing his long-term deprivation. He will employ psychological tools to make the victim believe his plight is proper and, thus, perpetual; that it is perpetual and, thus, proper. The secret to slavery is making the slave fear that his survival is a scarce commodity, yet his punishment is readily abundant. The more a slave fears for his survival, the less he thinks about his scarcity of freedom.

When scarcity is solely a function of the limited quantity of a physical object, man will deploy just enough effort and possible force to obtain that object and secure his quiet enjoyment thereof. This is the Hobbessian line of man fighting man and each remaining separate from the other in an antisocial stare-off. However, as slavery shows, scarcity can be of a compound variety. It can be predicated on the lack of a particular item or object that can only be obtained through strenuous endeavor. Because of the unpalatable nature of the labor required, there can also be a scarcity of people willing to perform the task although there might not be a scarcity of

people capable of doing the task. This results in a conflictive relationship different from Hobbes's depiction. Instead of man being engaged in perpetual combat and staring at each other across the antisocial divide, this compound scarcity makes for a conflictive social arrangement. Those who are stronger will dominate the weaker, forcing them to labor for the things the stronger party wants but does not wish to do. While they detest and abuse the weak, the strong still need them to perform the thankless services. It was this type of compound scarcity that bred complex but unjust social institutions like castes, feudality slavery, and sharecropping. To a lesser extent, the menial labor of the sweatshops and factories upon which capitalism is based also is of this genre of social relationships.

The Scarcity That Brings Cooperation

Heretofore, we have discussed the aspects of scarcity that bring man into likely competition and conflict with other men. However, scarcity also can cause man to cooperate with his neighbor.

There are instances when the desired item is not necessarily scarce but of a type that one person alone inherently lacks sufficient strength or acumen to obtain. (Centuries ago, hunting big or fast game would have been a prime example of this situation.) The operative scarcity in this instance is the limited capacity of one person to fulfill his goal by dint of only his own labor. Where the required labor is seen as a respected skill or as pleasurable, the chances that people will cooperate is high. If the persons involved are at parity in terms of skill and strength, there is added impetus for cooperation. Coercion does not work in this instance because the one instigating the coercion faces as much danger of defeat as the person he seeks to influence. Moreover, the struggle between relative equals likely demands such a strong exertion that the relatively high costs in achieving the goal through coercion does not benefit him. In such a situation, competition and conflict are less efficient and more dangerous than collaboration. Cooperation will prove the most likely

course to obtain the desired aim. In this instance, cooperation clearly is the best way to minimize the scarcity quotient.

Cooperation also can occur even when an item is scarce but requires greater labor than any single person can muster. Such a situation can produce cooperation, provided the requisite labor is not abhorrent. However, in these instances man's initial impulse veers from cooperation due to the scarcity and value attached to the find. Man first seeks other means to obtain the desirable item, just so he will not have to share it with others. At first, he will try any tool or impersonal object, from a twig to a boulder, to help him make the gain. He will then think of employing any living beast besides his fellow man to make the quest. Upon the exhaustion of all other options, man does the cooperative thing by inviting the help of his neighbor. Even then, he watches his helper with a falcon's eye to make sure he maintains control of the endeavor so that his anticipated gain is not unfairly diminished by the inclusion of another into the profitable enterprise.

This is a cooperative venture, with conflict and disharmony lurking slightly below the surface. This may be the most ironic and complex of the scenarios. Under these conditions, men tend to cooperate smoothly in anticipation of the coming prize. The closer the prize comes, the smaller and more unfair their perspective share begins to appear. Man's tendency to want the entire thing for himself reemerges. Mutual suspicion grows in direct proportion to the success of the joint labor. While such a partnership may fail and dismember at any point, members of these arrangements more often come to blows and hot conflict after achieving their goal than before it. Throughout the ages, profitable partnerships have fallen apart because of this dynamic. The groupings crumble for the same reason unsuccessful ones falter: in the estimation of the players, there is insufficient gain to continue the collaboration.

Cooperation also is more likely if a person seeks a particular item or end that only a few people of extraordinary skill can obtain and

the person concerned is not counted among this uniquely skilled group. In such an instance, that person will be prone to work cordially with the skilled ones. The exception to this general observation is where the person is so strong and powerful that he can compel even the most skilled person to do what he wants, when he wants it.

This takes us to a related form of cooperation. Man's conduct toward others is basically driven by material considerations and their constraints. Yet, as a social being, he is not purely determined by materialism's imperatives. Familial, clan, and other emotional ties, as well as the evolution of complex social thought, can ameliorate the brash tendency to grab unto himself all that is good. Man's impulses may be primarily selfish. Yet, he can partially regulate and cordon these sentiments, particularly in conditions where the scarcity involved is not one of absolute paucity of a life-essential item, but is one of relative scarcity, particularly where the scarcity is in the form of human labor.

There is no labor more profound than that required for protection against a physical threat. Thus, scarcity begets cooperation where the scarcity is related to the need for protection from a threat superior to the strength of any one man standing alone. (The other side of this is that brigands and marauders also band together because they realize they can more successfully attack others as a unit than as misanthropic soloists.)

Sometimes our strongest bonds are the product of fear. Two average men may share a stronger common enemy. The strong one periodically comes and extorts goods from the two. As long as they stand alone, he can make each succumb. In combination, they may best him. After being bested, he returns with another strong man. The two weak men need another ally. Thus, the tale burgeons until it becomes one of village against village, town against town, tribe against tribe, and nation against nation.

Commerce: The Most Important Vehicle against Scarcity

Based in large measure on his socialization experience within the familial unit, man learned it was more advantageous to cooperate with his fellow when that person had something he wanted. The same situation of want could result in thievery or strife but also in cooperative exchange depending on the social and economic wisdom of the actors involved. Thievery and brusque confiscation have and will always occur. Yet, man generally understands he can better alleviate scarcity by voluntarily exchanging with others, instead of living in an environment where the predominant form of activity is the constant taking from one another.

Exchange is essentially a form of cooperation. As such, it is predicated on a foundation of trust, order, and safety. It is a temporary pact between individuals, often strangers, to transfer items of relative scarcity between themselves in order to reduce each individual's measure of his particular scarcity. In placing an item into commerce, the seller demonstrates his belief the potential buyer will not steal the item or coerce the seller into accepting something of inappropriately lesser value in exchange. Likewise, the buyer must believe the seller will give him the desired item once he has offered something the seller wants. Whether the exchange is the barter of goods or a monetary payment is of little consequence. The implied agreements of trust, peace, and good faith upon which the transaction is predicated are the important aspects.

However, every commercial exchange contains latent competition. Each person strives to give less of what he has in hope of obtaining a maximum amount from the other side of the exchange. Man enters an exchange seeking the highest possible reduction of his scarcity quotient. In other words, he seeks to lessen his scarcity by fobbing a portion of it on the other party to the trade. In every successful exchange, the inherent competition in transferring one's own scarcity onto the back of another is moderated and never

allowed to degenerate into conflict. When traders reach the point of exchanging blows, they also have reached the point of exchanging nothing else. In the presence of conflict, there is no commerce. There can only be a taking by force or an exchange commandeered through duress. In a genuinely voluntary exchange, both parties ultimately reach agreement that a transfer of one item from one party suffices to induce the other side to part with another item. Each walks from the transaction believing he has improved his scarcity quotient.

A party does not seek to transfer a portion of his scarcity quotient to the other party based on how much the first party values the item he is trading. In a purely voluntary exchange, the first party can only pass a portion of his scarcity to the other person based on how intensely the second person wants the item held by the first. The more a person desires the trade, the more susceptible that person is to paying dearly for it. The more one pays for an item, the greater the likelihood that one is purchasing a portion of the seller's scarcity. This is the essence of a bad bargain. The common aspect of a bad bargain is not that the item is worthless, but that the person gave too much to obtain it, thus impairing his ability to further address other aspects of his scarcity quotient. The concept of a bad bargain can only be defined within the context of other similar exchanges and against the backdrop of the unique scarcity quotients of the participants in a particular transaction.

For example, two farmers, one strong, but laggard and the other weak, but industrious purchase identical sledgehammers and shovels for different reasons. The strong one is a terrible farmer. Barely making a living, he is on the verge of selling his land. Walking around the farm on the eve of the sale, he notices something shining like gold. It shines like gold because it is gold. He rushes to gather the scant harvest of grain to trade for a shovel and sledgehammer in hopes of striking the mother lode. He sells his grain and pays the local smith the money he received for 20 bushels of corn, half his meager harvest. The other farmer seeks the same tools to erect a

fence around his fertile acreage to keep out wild animals. However, he is not in a rush to construct the fence.

For the tools, he pays the tool smith 10 bushels, less than one twentieth of the harvest of just one quarter of his fields. Both men go to work with their newly obtained implement. With all his strength and newfound energy, the strong one digs deeply and hits what feels like rock. While the rock contributed to his abysmal farming, it soon proves to be to his finest liking. With the sledgehammer, he breaks through rock to find a handsome vein of gold. Through costly purchase of shovel and hammer, poor farmer is transformed into a rich miner.

The other man starts to erect his fence. He digs the holes for the fence posts. When he tries to install the posts, he discovers the sledgehammer is too heavy. He can barely lift it to strike the posts with any force. After a few days, he surrenders the idea of building the fence.

Although the strong one paid twice as much in absolute terms and even more in relative terms for the same implements, he clearly made the better bargain in the end. That his benefit was the result of chance and not wisdom in no way diminishes his profit.

The above tale shows two major aspects to an exchange. One is the actual price of the item. If the focus stays exclusively on price, then the impuissant farmer obtained the better deal. However, the other important aspect of an exchange is the future utility of the new item in lessening its buyer's scarcity quotient. In one instance, the sledgehammer helped a struggling man suddenly become rich, pushing his scarcity quotient very low. In the other instance, the man's scarcity of strength prevented his use of the instrument for the task contemplated. Instead of helping him protect his prized farm from damage, the tools proved useless. His scarcity quotient increased marginally because he gave away something valuable to purchase the shovel and sledgehammer that proved inutile. That he

could not use the instruments as contemplated means he departed with his own items of value without a proportionate lowering of another aspect of his scarcity quotient.

To measure the utility of a bargain, we must assess the price paid, as well as the utility of the onward use of the thing gained. Without these comparisons, there is no gauge to measure whether an exchange is mutually beneficial or not. This means the more exchanges that are made among actors in the immediate economy, the more each participant in any single transaction should understand the relative values of the items involved in each particular transaction and how those items relate to how each party will subsequently manages his overall scarcity quotient. Only in this context can a bad bargain be defined. It is only in this context that a good bargain can also be measured. However, even this bipartite measure is imprecise because of the inherent uncertainty of the second leg of the equation regarding the future usefulness of the thing obtained. The transactional cost of the exchange is more objective and fixed. A buyer paying $5 or exchanging two chickens for something is an objective fact beyond disputation. However, the measurement of the subsequent utility of the item purchased is subjective, uncertain, and can alter over time.

Two men enter a store to purchase identical radios. Upon walking from the store, one decides to give the radio to his son for being a diligent student. Before he can take another step, the other man bumps into him, causing the happy father to drop the gift, breaking it. After laughing at the clumsy father, the insensitive man dashes home to situate the radio by his bedside. At this point, the second man has derived the greater utility from an identical deal. Purchase of the radio addressed his aesthetic scarcity for music. Yet, he forgets the wall socket is malfunctioning. As he drifts asleep to the mellifluous sounds emanating from the appliance, misfortune strikes. The electrical socket sparks. The radio is instantly damaged. Worse, sparks from the socket catch his bed sheets. Soon his room is ablaze. The man barely escapes with his life as the house burns to

the ground. The man is freed of all his possessions, save the smoke-scented nightclothes on his back.

Unaware that he had been deprived of a gift, the young man in the other house is not distracted from his academic task. He studies diligently into the night, taking the entrance exam the following day. After coming home from the exam, his father tells him the story of the broken radio. The boy takes the broken radio to tinker with it. He quickly discovers he has a talent for electronics and repairs the device. Once the exams are graded, he is notified that his is the highest score. He receives an academic scholarship, enabling him to attend a prestigious university and secure his future career. He subsequently majors in electrical engineering. Given the twist of events after the one man bumped the other, the identity of the party who most benefited from the purchase changed with the passage of time.

People enter an exchange with specific ideas concerning the use of the item being obtained. The ideas they have relate to how the item will amend their scarcity quotient in a desired way. However, the outcome of their ideas is dependent on more than the purchase itself. The outcome is usually dependent on numerous variables some of which lie beyond the control of the actor. Human beings are fallible. Like the man who purchased the radio before repairing the faulty socket, we forget and miscalculate. In doing so, we are as apt to stumble into fortune as misfortune.

The past is dim enough. The clarity of our view into the future is more abysmal. The most obviously profitable exchange can fall subject to the whims of mean fate. Our calculations about how an exchange may redress our scarcity quotient do not precisely materialize as we wish. Sometimes we miscalculate like the man who purchased the heavy sledgehammer. Fate, bad or good, may intervene to divert our calculations down avenues we never intended.

The never-ending calculation and recalculation of scarcity is inexact and highly subjective. It is not a mathematical equation where the answer is the same for everyone. It is more akin to the ability to play a musical instrument. The abilities of man range from masterful musician to crank. Yet, everyone is flawed and fails at times. No one plays the instrument perfectly at all times. Moreover, the beauty and the value of some notes are matters of individual preference. They are not susceptible to an objective gauge. Everyone has a unique scarcity quotient. Apart from what is needed for survival, people value other aspects of life differently. Some people are content owning the amount of money and possessions sufficient to be deemed middle class. Others feel they are shabbily poor unless possessed of a king's ransom. One brother is a book collector while the other loves fine clothes and jewelry; the only time the latter picks up a book is to use it as a doorstop.

The notion of scarcity cannot be distinguished from the notion of man himself and the vagaries attendant to his rational/irrational duality. Man's calculation of scarcity is part intelligent, part emotional, even subconscious. It is based on material and intangible considerations that are part hope, part fear, and part logic, with each part overlapping the others. It is coherent in aspects and inconsistent in others. The calculations are shaped by those same stirrings that make man a genius and render him a fool. The feat of measuring scarcity touches his creative spirit but also invokes his destructive impulses to combat animate and other obstacles hindering his pursuit. It encompasses the reality of man's ability to cooperate with his fellow to improve his lot, as well to instigate conflict to gain what he wants. Thus, we err constantly and often are blind to, as well as blinded by our miscues.

Sometimes people engage in exchanges that are injurious because the high price paid disables adequate treatment of other aspects of their scarcity quotient. Sometimes, they engage in trades that appear injudicious, but represent the only rational choice because doing nothing will be more enfeebling. Thus, commercial

exchange can be beneficial at times because it reduces our scarcity and at other times because it lessens an inevitable loss. However, there are times when commercial exchange is sheer folly, but even that folly does not remain static over time. When America purchased the Alaskan territory from Russia in the 19th century, Secretary of State Seward was berated mercilessly. The purchase was called "Seward's Folly." Conventional wisdom was that America had been hoodwinked into paying a large sum for a worthless slab of snow-draped wilderness. However, the shape of 20th-century history—of World War II and the Cold War—as well as America's ascendance as the predominant superpower would have been different had Alaska remained in foreign hands. (On second thought, had things remained as they were, Sarah Palin, that errant ballistic, would not have become governor of Alaska. She would not have run as a vice-presidential candidate in the 2008 campaign, coming a hair's breadth from winning an office in the White House. Perhaps the purchase was folly after all!)

We calculate scarcity and value based upon our existing possessions, what we need, what we think we should have, what other people are willing to trade, and what we perceive that other people have. Despite the lapses and imprecision intrinsic to these complex calculations, the dominant trait of commercial exchange is one of collaboration that has bettered man's material condition. This has somewhat doused his readiness for conflict and paved the way to greater social complexity, which also serves to constrain the martial urge. Because of the perception that commerce generally betters their lot (by lessening their scarcity), people spend most of their time engaged in some form of commerce or exchange. The more people think of trade, the less they fight. The more they focus on the marketplace than the battlefield. There are few constants in human affairs. One is the persistent advance and expansion of commerce and trade. One exchange begets a multitude of transactions. Progressively, exchange grows in velocity, volume, and geographic scope.

Commercial exchange matured parallel to society's overall development, each fueling the other. The initial quest for autarkic subsistence was replaced by a new concept that abetted the emergent complexity of economic life devoted to the reduction of scarcity. Even at the level of familial life and enterprise, people began to specialize. Divisions of labor were established; these divisions were based on the universal perception of the ability of exchange to alleviate scarcity. Comparative advantage among nations and firms in the production of various items is but one facet of the overall concept of the division of labor.

Be they individuals or nations, actors did not always focus their production on certain items solely because they could produce them better or more efficiently than others. They produced the items because they believed producing the items was the most efficient means to improving their scarcity quotients. Production of an item was not just a factor of the actor's efficiency. The real question was not what or how much to produce, but what could be gotten in the exchange. The wisest economic actors sought to become efficient at producing certain items not merely because of their natural aptitude as producers or due to the endowments of their proximate environment. They committed to certain economic tasks because the dynamics of commerce suggested they could best address their scarcity quotient by producing high volumes of items for which other people were willing to pay dearly.

An elaborate commercial division of labor could not have occurred without the advent of money. Earlier, we posited the concept of money could not be divorced from the concept of material scarcity as the chief catalyst of human activity. The invention of money ranks with the wheel (and reality television!) as among man's greatest achievements. Money is perhaps man's most enduring agreement. It has also proven to be the great facilitator of economic activity.

Having a universally agreed value, money allowed for a geographic expansion of commerce because it functioned as a distillation of "value" from material goods, thus making "value" highly transportable. It also freed commerce from the strictures barter placed on it. Barter would have needed the coincidence of two people encountering each other whereby each possessed a thing the other wanted. However, money liberated both sides of the transactions. Since money could be traded for everything, it represented the constructive possession of the item desired by the other side of the transaction. A baker who wanted to purchase corn did not have to wait for the farmer to come along. He could sell bread to a cobbler and later buy the farmer's corn with money from the cobbler. The invention of money resulted in a multitude of otherwise improbable transactions. The universal acceptance of money is founded on the acquired understanding that the facilitation of commerce is the most effective method for addressing individual and collective scarcity.

As noted before, man would have no need for trade and exchange if he had all he craved at his fingertips. Likewise, man would find no reason to trade if everyone had the same things in roughly the same quantities. Imagine a location where the only things grown were tomatoes and each person harvested roughly five to six bushels of them. There would be no incentive to trade. What sense is there in trading four tomatoes for a similar quartet? If one person had a few more than another person, what would be the sense in him trading five in exchange for four of the other man's? For one man the exchange might seem beneficial but for the other, it would prove too unattractive to undertake. Exchange can only be based on relative scarcities of different items.

Distilled to its essence, trade and commerce are primarily cooperative ventures, whereby participants exchange ownership of items in order to minimize their scarcity quotients. If we assume the family as a biological, almost involuntary necessity akin to involuntary muscles used for breathing, commercial exchange rises

to the position of being man's most important voluntary cooperative endeavor. Commerce filliped increased production and a more intricate division of labor, both of which encouraged greater commerce in a manner that lessened aggregate scarcity.

Yet, commerce also comes with two strong kernels of competition that can erupt into conflict if care is not taken. Because commerce is an attempt by each person to maximize his possessions, i.e., minimize scarcity, it is also an attempt to transfer a portion of one's scarcity to the other person. Scarcity can be thought of as "having too much of not enough." Therefore, everyone engaged in commerce intends to transfer or sell some of his surplus "not enough" to the counterparty in the transaction. This is why, throughout time, people have haggled over price. Additionally, the impetus that commercial exchange gave to increased production generated another form of competition. This was the more classical type of competition on which economists tend to focus. The more people began to realize that trade and exchange were avenues to decrease scarcity, the more they engaged in commerce. However, to trade goods, one first had to produce them. Inevitably, some came to produce and trade like items.

With most things, the number of potential buyers was limited. The finite number of able buyers placed producers of the same or similar goods in direct competition with each other. This competition could become stark because it was also a contest to transfer additional scarcity to the other person. To the extent a person sells a good that precludes another selling the same wares, the unsuccessful seller is left holding goods with which he intended to part. To the extent he is left holding the unwanted bag, the unfortunate producer increases his scarcity. He applied time, energy, and resources into producing goods he hoped to trade in exchange for something else he deemed more valuable than the quantity of the product he was selling.

Ironically, production of the item would not have be the producer's ultimate objective. He engaged in production because he expected to make certain gains from trading the items produced. In the end, he was left with wares he wanted to trade. Likewise, he was deprived of the items he wanted in their stead. The desire to increase production also would have resulted in another hybrid cooperative/competitive relationship—that between producer and laborer. Here the producer would come to the point where he had to hire workers to produce numbers of the item beyond what he could fashion by his own labor. A producer always seeks to improve his scarcity quotient by paying as little as possible for labor. Much would depend on the nature of the labor required, and the relative social and political power held by the producer and the laborer. The relationship could range from one of near equality, where the laborer was almost a partner in the enterprise, to one where the laborer was the recipient of a serf's wage.

No producer hoped to be left in the position, where after all of his exertions, he was unsuccessful in selling his wares. Producers were left with two basic alternatives. One was to cooperate with other producers by agreeing to price or production levels. This was tantamount to an agreement to ration among themselves the ill-effects caused by the scarcity of buyers. A byproduct of buyer scarcity is producer uncertainty. The greater the scarcity of buyers, the more producers are uncertain that they will achieve the desired number of exchanges and make the desired gains. Consequently, producers often agreed to impose price or production limits in an attempt to distribute a tolerable share of scarcity amongst themselves in exchange for the safety that no one would have their commerce reduced to the point that continuation of business was unfeasible. This prevented the economic extinction of any one member of the group by also placing a ceiling on the profits of other members. This was one reason cartels were formed. Such arrangements have been with man from the earliest days of commerce.

Strong impetus for establishing a cartel can come from the exact opposite direction—where there are too few producers. Being few in number, they may find it easy to join and inflate their prices. At bottom, this is but a variation of the same underlying theme. Economic actors are relentlessly calibrating and balancing the cooperative and competitive aspects of commerce in order to improve their scarcity quotients, often at the expense of increasing the scarcity of others.

An alternative is to allow competition among producers to take its full course. This may be good for the potential purchaser. Competition between producers means the winning producer must be "more cooperative" with the purchaser by offering the lower price or higher quality. To some degree, this cooperation is lessened by the presence of other viable purchasers who want the same object and may be willing to tender more to obtain it. Thus, the same type of pricing and scarcity calculations exists on both sides of the exchange. However, the scarcer the item of trade in relation to the item offered in exchange, the more the potential purchaser must "cooperate" with the seller by paying the higher price.

Allowing competition to take its course can open the door to more than just price suppression where there is relative scarcity of buyers or to price escalation where there is relative scarcity of supply. Competition can become so intense that it results in conflict. Competition can be defined as two or more people trying to do the same thing more effectively than anyone else. The more efficient one is able to achieve his goals without directly interfering with the activities of the other person. However, the achievement of his goals does have adverse economic impact for the unsuccessful competitor. Because of scarcity, fulfillment of one person's goals comes at the expense of the other person. We can liken this to a foot race. Several people prepare to run. No one tries to impede another. Yet, in running as fast as they can, only one will win. That person captures the prize to the exclusion of other contestants.

However, competition does not always stay within these fine limits. Depending on what is at stake and the quantum of scarcity that may be reapportioned among winners and losers as a result of the competition, the process can take an ugly turn toward conflict. Take the same foot race. Instead of people running as fast as possible for the finish line, they began to sling obstacles to impede other competitors. The goal is no longer to win by being the most effective, but to win by slowing others to a pace slower than their own. This is inefficient and costly to all, but it is a form of victory nonetheless. While all suffer under this scenario, those who lose suffer more. The winner still succeeds in bettering his relative position by hoisting more scarcity on his competitors than he takes on. Throughout history, people have stolen goods, burned lands, and killed competitors. Trade competition gone sour has caused untold fights between people and nations. Commercial conflict has been as much the seed of war as anything man has done.

War: The Supreme Conflictive/Cooperative Hybrid

War is the ultimate social exertion. Man at war gives broad vent to both his competitive and cooperative attributes. When we think war, we tend to fixate on its conflictive aspects. We focus on battles pitting foe against foe. We see the violence and destruction that fighting causes. Yet, to understand human nature we must understand other aspects of war's bifurcated nature.

Fighting too is driven by scarcity. Due to scarcity, man is a conflict in prospect. A sated man rarely goes looking for a quarrel; neither does a satisfied nation embark on war. The problem is that people and nations are rarely satisfied. The bigger and stronger they are, the less satisfied they appear to be. Strong nations historically have initiated war against lesser ones to gain more resources, people, or land. Despite their strength, these nations lacked something they desired. They used their relative strength to address the perceived scarcity.

In the face of scarcity, the swiftest acquisition by any means necessary was man's first impulse. Sometimes, this meant grabbing and snatching what one could from those to whom no loyalty or kinship is owed. Experience has taught man that things were not so simple. All could not grab and snatch the same thing, yet remain in peace with each other. Competition of this unrestrained species quickly became conflict. We ran after the thing, only to begin knocking to the ground others who also were in pursuit. Even after someone obtained the item, order was not restored. The one claiming the item had to continue running because the others would continue to give chase and persist in snatching away the newly acquired thing. This approximated a Hobbesian existence. While these occurrences took place among men, society had other aspects that mitigated and minimized the occurrence of this cruelty. Consequently, this scenario is a more apt description of what occurs between nations than what takes place among individuals.

What Hobbes depicted was less the state of natural man and more the state of nations at war. Much of human history consists of war and nations at war. This seems to exonerate Hobbes partially. Yet, even here, he exaggerated the worst and ignored the cooperative aspects of collective aggression.

War is man's most aggressive, conflictive state. Paradoxically, it is also man at his most intense cooperation. War is the highest form of social conflict and the highest manifestation of national cooperation, depending on which aspects you view. Yes, the essence of war is enemy fighting enemy. However, just as much a part of war is the collaborative effort of the people comprising a nation or party at war. To prosecute war successfully, a nation has to gather itself for the singular purpose. Other activities bow subservient to the martial enterprise. Patterns of normal commerce and social functions are altered to support the war effort. The competitive processes of commerce and production are doused in some sectors of the economy, while accentuated and intensified in those more directly involved in preparing for the combative exertion. Resources, time,

and strenuous effort are devoted to the cause. An army is raised, equipped, and provisioned where before there was nothing. People rally behind the government as never before. Many internal differences and squabbles are held in abeyance, as the strongest ire is directed toward the common foe. Coarse war songs are written and throatily sung. People willingly endure hardship and deprivation they would kick at in peacetime. To subdue the enemy, people assume levels of scarcity that would ordinarily cause them to riot or turn criminal.

From this aspect, war seems to be intense cooperation constructed on a foundation of conflict. But for the conflict, there would not be such focused collaboration. Yet, no nation would voluntarily go to war without believing that a sufficient level of cooperation already existed within its jurisdiction. Entry into the fray is based on the belief that enough cooperation exists in peace to elevate the nation in a time of war. At times, nations make the wrong decision about war. Sometimes the degree of required unity does not exist. Yet, this failure to judge properly does not undermine the essential truth: war is a collaborative effort among people on one side, competing against the collaborative efforts of the adversary on the other side

As we can detect from two powerful catalysts of human affairs, commerce and war, both are complex endeavors inhabited by cooperative and competitive attributes. In the face of scarcity, man's first impulse was to race or battle his fellow man for the precious object. Unless constrained by preexisting loyalty or affinity, this impulse readily became conflict. What was true of man was also true of nations. War often resulted. However, as man progressed so did the complexity of society and his calculus of scarcity. As commerce and trade grew, man became more affluent in absolute terms. However, his relative scarcities increased as he desired to possess more of the things he had invented or discovered. His definition of well-being became multidimensional and refined. A century ago,

most Americans and Nigerians did not expect to own automobiles. Now, those who do not own one are considered poor or odd.

The growth of man's wants and expectations made him more covetous and acquisitive on one hand. The greater covetousness increased the tendency toward competition and conflict in some ways. It also spurred commerce and production that tended to be more collaborative than not. As man gained more, he also had more to lose and to gain from conflict or war. Conflict and war became bigger, yet more uncertain, gambles. As civilization grew, man came to understand that conflict had inherent, unavoidable costs that increased scarcity; war was uncertain in its outcome. It was certain expenditure for unsure reward. In other terms, conflict was a risky investment that often did not produce the wanted dividend.

What Next?

What we have seen is that man's most important activities, commerce and war, are the products of his ubiquitous tussle with scarcity. He seeks to reduce scarcity by obtaining things for himself, mainly by acquiring them from others through negotiated exchange, swindle, or outright confiscation. Man's most important activities are hybrids of both cooperative and competitive elements, albeit in drastically different measures and strengths. His activities can be plotted on a continuum bounded by theoretically pure cooperation on one side and pure conflict on the opposite extreme. Nothing man does attains either purity. Everything falls short, meaning everything has elements of both cooperation and competition. Most of what man does, he does in partial cooperation with another person but also in partial competition against someone. Often, the person with whom he competes and cooperates is the same.

Man even shares this binary relationship with his physical environment. It sustains life but does not give him everything he wants or imagines. He can walk, swim, or mount a horse, but he wants to sail or fly to places his physical exertions alone will not

allow him to reach. Thus, man has altered the physical environment to gather resources and rearrange them in ways that fulfill his desire to sail and fly to remote places. In all aspects of life, an unadulterated earth has given man the ways and means to survive; yet, this was not good enough because it did not provide enough goods for pleasure. He focused on sailing, flying, and driving because he was always pursuing but never reaching completeness, i.e., the absence of scarcity. Man reached into the bowels of the earth to extract materials to erect great cities, send projectiles into space, fashion lethal weapons, and prolong his life. He punched, wounded, and bled the earth in his quest to checkmate scarcity.

There seems no end in sight to this behavior. He will continue until the very end to cooperate and compete with his fellow man and his environment, in this heroic, yet vain and venal, attempt to extinguish scarcity.

Here, we have stumbled upon the essential philosophical matters that constitute the proper role of government. The most important aspects of social man, his economy and his martial diversions, have both cooperative and competitive attributes. Government's essential function is to properly balance the cooperative and competitive aspects of man in ways that minimize aggregate scarcity in both the short and long term. Usually this means encouraging cooperation to the extent possible and managing socioeconomic competition so that it complements cooperation, but does not descend into costly conflict. Because conflict is tempting, although generally more wasteful than productive, one of government's prime functions has been to restrict violence by harshly sanctioning the individual resort to the use of force.

One fundamental aspect of government is its monopoly on the legitimate use of violence. Government's monopoly on violence is partly based on the realization that the greater the number of private actors in a society able to resort to violence, the greater the threat to commerce and cooperation. This means fewer products and more

scarcity, which foments more violence. A dreaded cycle of violence and scarcity is easily created, but hard to destroy. The more violent and less cooperative a society, the more it succumbs to crippling bouts of scarcity that only generate more intense competition. In effect, government's role is to help reduce scarcity by establishing policies that encourage cooperative relations, similar in spirit to those associated with family and kinship, among people to whom the bonds of consanguinity do not adhere. Formal government seeks to make more congenial and productive the balance between cooperation and competition than would otherwise exist under informal, less sophisticated modes of governing human conduct.

Chapter Five

Adam Smith and the Visible Hand of Government

Whosoever says man is rational is irrational.
Whosoever says man is irrational is rational.

Economic orthodoxy stands on two crumbling pillars. There is no time for tears at the passing of this system of ideas for it led to the current economic dystrophy. It is time to raze this condemnable way of thinking, one false pillar at a time.

The first pillar is the bunkum that man is completely a rational being. It pins logic to the mast to believe such a thing. Yet this has been a canon of economic thought for roughly two centuries despite its patent disrespect for the truth of human conduct. This assertion would have us believe that every person acts the same or makes nearly identical economic decisions when confronted with the same set of economic circumstances. It warms the heart to imagine such symmetry, yet dulls the mind to believe it. No great research is needed. If one keeps his eyes open to the variations in the everyday behavior of friends, he must reach the conclusion that people often see the same thing differently and often view different things as the same.

Man is a quizzical species. He is majestically, yet also pitiably irrational. Sometimes he thinks, sometimes he feels. Sometimes he guesses, although he knows the answer can be had through careful study. He prays and thinks he hears God when it is but the muffled voices on the opposite side of the wall. Other times, he actually hears the voice of God but does not like the message, so he attributes it to

the wind. Sometimes he intuits the solution to a complex technical problem at his factory. The next week, he nearly forfeits that same factory by erroneously signing a costly, harmful contract because he glossed over the word "not" in the operative line of the document. For that fleeting moment, he was daydreaming of the first time he attended a football game with his father. The same biases and ignorance, creative stirrings and genius, or lack thereof, that fuel his thinking in other spheres of life, as well as the highs of good luck and lows of sad misfortune, also affect his economic decisions and their outcomes.

Despite a world of evidence to the contrary, many people believe in this overarching rationality with all the faith they can muster. In this instance, faith sits in the chair truth should occupy; economic folklore stands as counterfeit fact. Economic creed trumps reality.

The other crumbling pillar is that the free market can always maximize benefit better than can active, substantial government participation in the economy. This assertion is more contentious and less obviously false. Nonetheless, it is false. Surely, government is imperfect but so is everything man does. The idea that naked pursuit of individual profits can always produce a result better than coordinated action resides among these imperfections. While government is flawed, it has evolved into an effective countercyclical brake on private-sector flagrancy. Without government intervention, the global economy would have drowned in its own backwash during the past several years.

In the minds of free-market fundamentalists, these two false assumptions merge to form one massive portal into the garden of endless economic progress. This imaginary portal is really the thicket at the center of the land of utter make-believe. For the free marketers, the aggregation of the rational acts of purely rational man is greater qualitatively and quantitatively than the sum of its parts. These advocates of the unrestrained market have kidnapped the phrase "the invisible hand" from Adam Smith, using it as their

mantra. They have also expropriated Smith's name to their crusade. However, Smith only employed the magical phrase once. Its master used the grand phrase one lonesome time in his seminal book on economics—just one time! Even then, he gave it a nuanced, conditional meaning at odds with the blustery postulations of its latter-day salesmen. Smith posited there were times when the uncoordinated efforts of individuals pursuing their own selfish ends yielded richer benefit than did those accruing when government purposefully tried to steer matters in a chosen direction. He offered that this sometimes felicitous outcome from uncoordinated, selfish action made it appear as if an invisible hand were at work, guiding everything in the right direction, shaping the myriad individual pursuits into the greater good.[1]

Never did Smith intend this description to assume the aura of universal infallibility. He offered it as an irony of human existence. In this, his depiction was condign. Smith understood that man's limitations often prevent him from reaching his intended destination. Man sometimes turns left when going right is best. He sometimes dashes after the impossible, thus doing injury to the probability within reach. In trying to douse a fire, man can make it worse.

Smith observed and knew that man's limited abilities and knowledge sometimes made his attempts at large-scale planning ineffective and counterproductive. Man sometimes was better off eschewing collective planning in order to allow everyone to select his own way. However, Smith never intended this observation to attain the status of a papal bull governing all economic activity for all times. He saw it for what it was: an observation highlighting one of the several outcomes possible, given the complexity of aggregate human economic activity and our limited ability to comprehend fully the dynamics of this daedal aggregate.

However, free-market fundamentalists have given Smith's elegant phrase an apotheosis he never contemplated. The

fundamentalists claim it to be the truth inviolate. For them, the invisible hand has become the hand of God, and the rational man the son of God. High virtue is thus confined to the ad hockery of individuals and firms. Vice is found anywhere and anytime government places its maladroit hand on the economy. This slick boast has paraded itself successfully as vintage wisdom for too long. Because it has long overstayed its utility to the economy of real people and real objects, this perspective endangers more of the world's prosperity than it ever helped create. Poverty of thought is ultimately more dangerous than poverty of things.

Scarcity is the winepress upon which man labors. The nature of his labor and the utility of it are defined in accordance with how he defines his scarcity. His labor is finite and imperfect because man's labor reflects the qualities of man himself. Each of us is of limited comprehension, memory, and strength. Although all are limited, all are not limited to the same degree. Our intellectual and physical composition imposes upon us limitations in varying gradations. Our wants, desires, courage, and fear are subjective and individually bundled. We are rational to the extent that we are rational; but that does not take us all the way home. For all else, the wind blows as it may, and we know not why.

The concept of omnipresent scarcity means that man, while attempting to do his best, will fall short of the purest definition of his objective. Moreover, his objective can be inappropriate and he can commit egregious mistakes in the ardent pursuit of sure, yet concealed failure. This can happen to man as a lone subsistence farmer, as well as to man as the leader of a great state. It can happen to the illiterate or to the greatest thinker of his time. Those who believe in God know the Creator can make something out of nothing. Those who understand Man know he has the sordid capacity to turn something into nothing.

As the professor entered, silence hurried across the auditorium. The hum of 100 voices gave way to fidgety silence. The students

were primed with anxious expectation. They had taken their first exam in this honors undergraduate economics course last week. Today, the results of their efforts would be known.

As all eyes fixed on him, the venerable professor announced he would follow his normal custom, which had become the stuff of campus legend. He would give special recognition to the top five students by calling them to the floor to receive their exam papers personally from him. All others would have to wait until the end of the class to receive their papers from the professor's graduate assistant. He also would present each of the top five with an autographed copy of his acclaimed book *Economics: The Ascendance of Rational Man*. The student with the highest grade would not only receive the autographed book but would become the sole undergraduate on the staff of the university's journal of economics. Still, that day held forth a more immediate honor. On that day, the honored student would address his classmates. On campus, this had been dubbed "The Ascension." Many students dreamed of winning this accolade; several preceding winners had gone on to attain renown in the field of economics.

As he had done year upon year, the professor first called the four runners-up who did not get the highest grade. As the professor announced their names, that quartet rushed to the floor to receive their gifts from him. After taking what he gave, they diffidently lined themselves up behind him. Theirs was a mixture of pride and disappointment. They had distinguished themselves above most of their peers, but not by enough. They had beaten most only to lose to one. Each wanted to experience academic rapture, but had fallen short. They had just won prizes that few had; yet, for them, winning felt like a consolation. Each wanted to be the begotten one, but they had to be satisfied with being mere angels. They were the called, but not the chosen.

Finally, the professor announced the name of the student of the hour. An unassuming, somewhat disheveled, bespectacled student

clad in worn jeans and a rumpled blouse strolled lazily toward the professor. One of the quartet caustically snickered to the others, "This does not look like someone expecting to ascend to heaven. She looks like someone heading in the opposite destination." The other three giggled venomously, but abruptly stopped when the professor turned to ask what had lent viper's humor to such an honorable moment.

He turned back to look quizzically at the sloppy student. He too thought the student's appearance odd, slightly insulting. The professor could not control the subtle twitch that almost imperceptibly wagged his head from side to side, subconsciously indicating, "No, not this one!" Despite his unease, the scholar continued as he had done for years. He would soon wish he hadn't.

He proffered the book as well as a letter asking the student to join the journal staff. With gracious, aristocratic wave of the hand, he motioned for the winner to stand in front of the rest of the students to make the expected address. What she said was everything he did not expect.

The student unleashed a bombshell, the echoes of which are still heard in that auditorium, despite the years that have passed. She entreated her fellow students to forgive her academic dishonesty. She paused. All eyes glued upon her. The professor stiffened with surprise. The room was charged with that tense, almost busy, silence one feels before an execution or the first volley of war. They immediately thought she had cheated on the exam; after all, someone who looked like her could not possibly be the best student. She disappointed them, however, by explaining that her dishonesty was not that of cheating. Her offense was more grievous. She gave answers she knew to be false in order to make the high grade. She now wished to recant her exam in order to save her intellectual soul.

Confounded murmurs rushed across the auditorium. How could she have achieved the highest grade if what she wrote was wrong?

The professor remained frozen in the oddness of the moment. For the first time, he had lost control of his sanctum, the classroom.

The winning student declared she could no longer abide the farce of the "rational man." The entire edifice of traditional economics had been built on this rickety assumption, she asserted. "This meant the structure of economic thought rested on the shoulders of a man who does not exist! Because this Atlas is nonexistent, the edifice depending on him has to collapse!"

Some students, mostly those with the poorest marks, roared approvingly at her irreverence. She berated the notion of the rational man as the economist's futile attempt to place his science on the same logical and deductive plane as that occupied by the natural sciences. Physics and chemistry have the atom and its particles as their essential building blocks. The atom and its particles supposedly behave the same way all the time. Economists have straitened man in the same jacket. They do this so their theories can be tidy, mathematical, and coldly logical. Such is the false genesis of rational man. If he exists, it is only as a figment exists. He was created so that economists may enjoy their theories secluded from real world conditions. Thus, the economist posits, that "faced with the same economic conditions, every person, whether from Timbuktu, Borneo, Paris, or the Scottish Highlands, will act in the same way." For the economist, the rational man is the new Adam, as well as the new atom.

Seeing his cherished beliefs and lifework excoriated in front of him by someone he was willing to bring into the sainted guild was too much for the venerable professor. He felt belittled and betrayed. This was unpardonable academic treason that he would not tolerate, particularly in his classroom. He would rescue the honor of his profession and that of his person from the anomic ideas of this ingrate. Consumed by anger, his patrician face narrowed into its reptilian caricature. The conversation that ensued, however, would cause more intellectual breakage than what preceded it.

"How dare you belittle generations of knowledge and research! Society and economics have progressed because of our contributions. What right have you to make such a statement? What evidence have you to support it?" screeched the professor.

"I dare say society has advanced, in spite of, not because of the doctrine you teach. For evidence, one needs to look no further than this classroom to understand that the cherished theory of the rational man is an old bucket with new holes," she riposted.

"This classroom?" Pray tell, what in an economics classroom could refute economics?" the professor guffawed.

"Your exam!" she declared.

"My exam?" he sputtered as half question, half defensive exclamation.

"Yes, by giving this very exam you refute the concept you hold dear. If the theory of the rational man were true, everyone would respond to the same economic situation in the same way. If so, these exams and their grading would be superfluous. As such, the very fact of having exams further refutes the concept of complete human rationality. In fact, there would be no need for this course. We all would be excellent economists by dint of human nature. Peasant farmers in Brazil and Mali would have the same keen insight into financial and economic matters as the Wall Street banker, or Keynes or Friedman. Moreover, Keynes and Friedman would be in accord. Lamb would lie down with the lion. Having taken the same exam, all students should receive the same grade. Giving us different grades means you recognize that we each gave answers of different quality based on different degrees of logical consistency.

We all argued our answers and reasons for them with varying degrees of inspiration and insight. However, if we were all rational

economic actors who behaved the same way when faced with the same economic circumstances, we all would have reached the same conclusions using the same reasoning just as rational men behave the same in the marketplace of the economist's reverie. However, you look at it, you and your nonexistent reasonable man lose. Either man is not completely reasonable and all of us are of different levels of reason, or teaching economics is a wastrel excursion and, as such, is irrational."

"That is preposterous. The exam is meant to measure your intellectual capacity to use economic concepts, not your capacity to function as economic actors in the real world," defended the professor.

The student parried, "What you just said is a distinction without a difference. If people act the same in the marketplace because of this universal rationality, then *a fortiori* we should all reason the same way in the classroom. Reason would dictate that our classroom behavior, upon which our future careers depend, would be no less rational than our conduct after we leave school to enter the marketplace. If reason is as you say, then all of us should think alike in the classroom so that we may act the same in the world outside the classroom. Yet you say each of us has different ability to learn economic concepts in the classroom, but we are of identical ability in applying these concepts in the real world. This means our level of intellectual understanding of economics has no effect on our actual economic behavior. Put another way, what we learn in the classroom stays in the classroom. Consequently, those who do well should not boast and those who do poorly should not fret. Somehow, the underachievers shall divine in the real world that which escaped their assiduous academic study. Yet, your testing implies the classroom has a pecking order. It is an intellectual aristocracy. Outside the classroom, however, our rationality mysteriously undergoes egalitarian leveling. That which was high is made low, and that which was low is made high. This all would be comforting if it were true. I hate to say this almost as much as you will detest

hearing it, but your explanation is sophistry. If this were a course in logic, you would not have been among the top five students called to shake the professor's hand."

"You are impertinent and extremely stupid, may I say for good measure. You evidently do not understand the basic tenets of economics. May I have back your appointment letter? I would rather a nanny goat join the journal staff. Give me your exam paper. I must have erred with your grade," said the professor, his remarks oozing the venom of hostility.

Yanking the exam from her hand, he walked in briskly long strides to his desk. He made a few strong, rapid strokes and flourishes with his pen. He walked with a more restrained gait back to the student.

"I think this will be more to your liking and more befitting what you have revealed as your understanding of economic science," he smiled maliciously.

The "A, 97" on the paper was now blotted and no longer visible. "D-, 52" appeared just a few inches from where the previous grade had been.

"You have denied me your prize which is your prerogative to do. Yet, your actions, fueled by something more guttural than rationality, have conceded the greater point. What you have given me is better than a grade. It is vindication. For this I thank you," she said, smilingly as she walked proudly back to her chair.

If the concept that the free market always outperforms an economy with active government participation is valid, then the notion that man is rational must be false. By rational we mean having the ability to accurately discern and implement a course of action that maximizes economic gain. If man were completely rational, his actions as a government official would be no less

salubrious to the political economy and would attain the same level of rationality as his actions as a private individual. The postulation that man is eminently rational does not square with the accusation that governmental man is an inferior economic being to private man.

Regarding the rationality of man and the supremacy of the free market, both postulates may fall or one stand. Both cannot endure. If man in government is inherently destined to drive the economy at a lower trajectory, this connotes subservience to a different menu of reasons than those controlling economic man. Alternatively, his reasoning ability may be inferior to that of economic man. If he is thrall to a different menu of reasons, then man is not uniformly rational; his rationality is contingent upon his environment and the role he plays in it. Rationality is not constant but situational. Likewise, if we say those in government simply are not as astute as those in the private world, we still decapitate the notion of uniform rationality.

Asserting that government is less efficient than the marketplace is an admission of man's irrationality. It affronts logic to claim man can be completely rational as a man of business, but that he becomes reduced to a lesser being simply upon being employed by the public. If the assertion about rationality stands true, then the one about government inefficiency stands false. However, if the latter is false, the former also cannot stand, since a rational mind would not entertain such a flagrant notion. In the end, the economist's ascription of rationality to man is so vague and imprecise, as to lend nothing to our understanding of human behavior.

The notion about government inefficiency, likewise, is mythic. Like most myths, it has a tenuous connection to historic incident. Like most myths, this factual connection has dwindled with time's passage, so that whatever accuracy the myth had yesteryear no longer applies today. Time moves, and its movement changes things, including those things once considered economic truths.

The Hand of Adam (Smith)

In writing *The Wealth of Nations*, Adam Smith became the father of classical capitalist economics. The sheer genius of this work etched Smith's name into history. As long as civilization exists, Smith's name will be remembered, if not always honored. For the modest Smith, the diadem rests uneasily on his head. Beyond the grave, he must rue the knowledge that as long as man exists, his work will be misused.

That *The Wealth of Nations* was published in 1776, the same year as the American Declaration of Independence, may have been a coincidence of human endeavor, but it was not an accident of history. Both documents are timeless, yet framed by their particular age. This was a time of intellectual advance against monarchism. Although Smith wrote in England and the framers of the American Declaration were an ocean away, they both chronicled the decadence of the same monarchical system. Both documents saw that system as throttling human progress. Smith and the Americans disapproved of the greedily inept and unstable king, George III, and both yearned for a better way. In a fundamental sense, *The Wealth of Nations* was as much an economic declaration of independence as the American document was a political one.

Care must be taken when reading Smith so that one does not see what is not there, yet miss what is. His work is intricate tapestry. Its larger importance cannot be gleaned until we interpret Smith within the context of the times in which he wrote. To the extent possible, we must prevent ourselves from trying to interpret him as though he were analyzing the present. As Thomas Jefferson wrote The Declaration of Independence on the cusp of a new political reality, Smith wrote *The Wealth of Nations* on the dawn of a new economy. We cannot pinpoint the exact date the Industrial Revolution began because the Revolution was not a discrete event. It was a coming into existence of technology and resultant economic processes and

modes of thinking that would alter the very way in which man related to his fellow man and to his economic environment. Nothing would remain as it was. The slow, often unsteady, yet seemingly irrepressible advance in commerce that was the precursor to the industrial irruption already had stretched to the utmost fiber the viability of the feudal social system and the economic relations comprising that system. Over the course of the century preceding Smith's elucidation, the feudal system was placed in a vise it could neither evade nor resist. Slowly, the steady growth of urban commerce and production make wreckage of the rural and caste strongholds central to the feudal idea.

Yet, most people could not see the change taking place. Few understood it. Some saw, but opposed it, believing their ability to manage their scarcity quotient would be jeopardized by the advent of a new order. Those most opposed to changing the economic game were the monarch and the aristocracy allied to him. Few in the elite understood that the beckoning changes could enrich them and their nation in ways unparalleled. Those who might have understood still fretted they would lose power and superiority over their subordinates in the old system. Just as commerce at the individual level was a hybrid, cooperative-competitive venture, the aggregate impact of the expansion of commerce and production possessed this hybrid attribute.

A flowering of commerce on a large scale meant a commensurate escalation in production and consumption. Those engaged in these activities became more affluent. This encouraged them to further engage in these activities. They formed a new elite that generally cooperated among themselves because their mutual interests were served by increased commerce. However, the older elite found their lofty positions under assault. They saw a threat in this collaboration among the new elite. Consequently, the old elite banded together, attempting to disarm the assault against their primacy. Commerce produced cooperation and competition not only among the parties to a transaction. The evolution of the nature of

commerce produced new forms of cooperation and competition in the changing political economy of the day. Those most involved in fashioning the new levers of commerce and production came into competition with those who would maintain the old.

The development and increasing importance of commerce and production was paralleled by the quickened evolution of economic theory and thought. The more important a thing, the more it becomes an object of study. The very changes that took place in the structure of the political economy allowed for the study and observation of the economy in ways previously unprecedented. Although Smith's fans claim his work is timeless, their assertion is but partially true. Had he been born 200 years earlier, he would not have possessed the education and knowledge to advance the arguments he made. In addition, the earlier political economy observed was markedly different from the one analyzed in 1776. The observations he made in 1776 would have been inaccessible 200 years, or even 50 years, earlier. A prior, more rudimentary political economy would have been incapable of supporting the conclusions the theorist tendered. Anyone making Smith's findings in 1576 would not have been seen as a soul with insight, but as someone writing literary fiction of the densest prose imaginable. Smith was the right man for the job, no doubt, but he would not have been so highly considered had he not appeared at the right time. Smith's work is a work for his epoch. We can draw general lessons from his writings, but we must be careful not to view as timeless and always relevant statements groomed to the realities of a much different age.

Smith's writing reflected the intellectual positions of those supportive of the modern commerce of that age. Even the title of his book is telling. His focus was on maximizing a nation's wealth. He was an apostle of the Industrial Revolution. During his era, the primary business of government was not to advance business or improve the economy's productive capacity. Instead, the chief occupation of government was military power and the skilled use

thereof. Concentration on geopolitics and military power often meant clumsy handling of the economy.

The monarch, while no longer absolute, was still powerful. In England, Parliament had absorbed many lawmaking powers the king once possessed. While somewhat more representative on political matters, Parliament was generally of like mind with the king on economic issues. For those parliamentarians with a truly aristocratic bent, commerce and business were ignoble, grubby undertakings performed by common people. That some of these people would become affluent was not of consequence to the privileged few who controlled the apparatus of state power. They would co-opt some of the moneyed hands into the aristocracy, and their world would continue to be as stratified as it had always been.

The monarchy, the elitist Parliament, and the stilted old business interests sustaining the existing system did not catalyze the new one. Their selfish, often ignorant, opposition constituted the new order's greatest barriers. The new order threatened their station and their worldview. Smith was capitalism's chief intellectual emissary, while these institutions adhered to a vanishing mercantilism. Smith's keen eye was fixed on maximizing production. His lodestar was the production of goods having high value-added content caused by the manipulation of raw material by the combination of human labor and physical capital. King and Parliament were less interested in maximizing aggregate wealth. They focused on increasing the differential in perceived military and economic strength between their nation and adjacent ones, between themselves and their lesser subjects. This meant they were more preoccupied with the accrual of gold and silver and of soldiers and weapons than in the manufacture of goods and products. Smith's ambit was minimizing scarcity by increasing the quantity of goods and the volume of trade. The others' game was to minimize their scarcity by fobbing it on neighboring countries, as well as on disfavored segments within their own population. Both approaches contained elements of cooperation and elements of contest. Smith's approach tilted more toward

cooperation, while the King's leaned toward competition. Smith saw the economy as a nation's primary utensil. The king viewed it as a weapon.

Because of these different perspectives, Smith had much to rail against regarding government economic policy. As a rule, government policy interfered with the efficient operation of the market and the maximization of output. However, much of this interference was not the result of ineptitude. Government policy did not aspire to maximize production only to fall short. Government wanted to use the economy to accomplish political ends often incongruous with economic maximization. During this era of human history, government's primary concerns were security of the state and perpetuation of monarchial rule. Economic aspirations were secondary to more overtly political objectives. The gap between Smith's thinking and that of then extant governments was oceanic. Though standing on the more benign ledge of this chasm, Smith did not bring himself to categorically dismiss government action in the economy as the inherent evil his modern epigones now preach.

To a large degree, government was inimical to the birth of the productive economy Smith envisioned. In this context, logic compelled the observation that individuals working toward their own limited ends, at times, could produce greater aggregate benefit than could a government with a mercurial bent and no aptitude for economics. Implicit in this observation was the fact that man was irrational and prone to error. Smith recognized private businessmen erred constantly. The consequences of their wrongs, however, were limited to their enterprises and its field of beneficiaries. Despite the relative impairment or even dissolution of a few companies, overall commerce would function unimpeded. Their diminution would be compensated by the increased activities of existing producers or by new entrants into the business. The mistakes of the individual or of a single firm did not have systemic consequences during this period of capitalism's gestation. For the most part, firms were too small to make or break the market. Both the individual and the single firm

were more subordinate to the market and its dynamics than the market was subservient to the designs of individual participants.

However, the consequence of government error was entirely different because government acted at the larger, aggregate level. A mistaken decision by government buffeted the entire sector toward which the decision was directed. Although an excellent decision would increase overall prosperity, error would wreak havoc across a wide expanse. The effect of that error would not be confined to a few players. Instead, a poor decision by the government would have inescapable, systemic implications. While the wrongful decision of the individual was his alone to own and bear, a wrongful decision by the government became a public matter, burdening all.

Thus, there were two reasons to fear government would make the wrong decision. First, the simple fact government often made economic decisions to achieve noneconomic ends meant that many decisions would be anathematic to economic maximization. Second, government was at a disadvantage because its decisions were inherently more complex than those of any single firm. Determining policy is the equivalent of making an aggregate decision for numerous small firms. The complexity of decision making increases in exponential proportion to the increase in the population and functional area affected by the decision. It is harder for one person to make a decision for 1,000 people than for 1,000 individuals to each make a decision affecting only his own personal circumstance. The complexity of governmental decision making was compounded by the government's relative lack of economic acumen and information.

It is against this backdrop that we must weigh the applicability of the invisible hand to see whether it is germane in all instances and for all ages. To do so, it is wise to review why the concept was first enunciated. Smith's sole reference to the invisible hand was to raise a criticism few would find objectionable. In using the magic words, he railed against government creation of opportunistic, inefficient monopolies:

> "By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an *invisible hand* to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest, he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good. It is an affectation, indeed, not very common among merchants, and very few words need to be employed in dissuading them from it."[2]

Smith's observation falls far short of an ironclad guarantee that the workings of the "invisible hand" always produce the most beneficial result. Basically, his contention was that the pursuit of self-interest frequently produced an aggregate result more beneficial than that produced by a centralized effort. Yet, he did not venture to declare this outcome inevitable. He dared not because he knew it to be untrue and unwise. All depressions since the 19th century, including the Great Depression, proved this contention false. Since human memory becomes blunted as soon as greed whispers into the ear of man, the Recession of 2008 provided a bitter reminder of what awaits when we nest ourselves in the invisible hand. The problem is not that the hand is invisible, but that it is merciless. Steering the hand is avarice, and avarice can never be a friendly pilot because it always leads into the badlands where extreme conduct seeks to be declared normal behavior. Unfettered greed is but an economic crisis in waiting.

If the operation of greed and its intangible appendage were so transcendent and universal an aspect of human activity, the capitalism Smith wrote about would have been established at the advent of human history. It would be as old as we are. It is not. The free market does not reflect the purest distillation of human behavior. It only reflects man in his modern distillation. It reflects human nature as subject to a certain level of development of the political economy and technology. This makes it neither greater nor lesser than any other mode of ordering ourselves and thinking about ourselves. We know ourselves only in part. We know even less about how the social constructs and material inventions we make affect how we interact with each other and define our existence. Nothing man thinks can accurately reflect the totality of his nature. We are fated to create and believe ideas about the operation of the political economy and ourselves that are partially crippled by our limited capacity to know how things affect us, how we affect them and how we affect ourselves.

In the aforementioned quotation, Smith implies man is not the rational economic actor upon whom later economists would found their science. Smith said, "By pursing his own interests, he frequently promotes that of society more effectually than when he actually intends to promote it."[3] According to this statement, man errs in his decisions in two ways. First, according to orthodox economists, man does not pursue anything but the elevation of his own selfish interests. Yet, Smith admits man can and sometimes does pursue an alternate path. Second, Smith acknowledges the actual results of man's actions can be contrary to his objectives. Thus, man's rationality is flawed. It is the height of irrationality to take action to achieve one result only to produce something materially different. If rationality stakes claim to such wrong-mindedness, then rationality is no more distinguishable from the irrationality than red is from crimson.

There is another perhaps more telling quotation from Smith that free-market extremists ignore. This statement was made within the

context of eager, pro-mercantilist traders persuading Parliament to enact measures that would benefit the traders to the nation's detriment:

> "Such as they were, however, those arguments convinced the people to whom they were addressed. They were addressed by merchants to parliaments and to the council of princes, to nobles and to country gentlemen: by those who were supposed to understand trade to those who were conscious to themselves that they knew nothing of the matter. That foreign trade enriched the country, experience demonstrated to the nobles and country gentlemen, as well as to the merchants; but how or in what manner, none of them well knew. The merchants knew perfectly in what manner it enriched themselves. It was their business to know it. But, to know in what manner it enriched the country was no part of their business. This subject never came into their consideration but when they had occasion to apply to their country for some change in the laws relating to foreign trade it then became necessary to say something about the beneficial effects of foreign trade and the manner in which those effects were obstructed by the laws as they then stood...From one fruitless care it was turned away to another care much more intricate, much more embarrassing and just equally fruitless."[4]

More obscure, but no less meaningful than that of the "invisible hand," this passage raises two points relevant to our day and time. The first pivots around the issue of man's rationality. If free-market orthodoxy is valid, its validity rests on the assumption that all men

are rational economic beings. This also means that all are possessed with the same level of knowledge and understanding. None can be deceived, and none will seek to deceive another. Reality belies this. In this less known passage, Smith observed the people entrusted to make commercial laws lacked the knowledge required for this responsibility. The leaders of the political economy were galloping in the dark, blindfolded by ignorance of the very subject matter upon which much of their ability to govern depended. This is another glaring example of man's incongruity. Those who claimed leadership were impoverished of the knowledge needed to be good leaders. The people who knew were not those in positions to make the decisions.

Even those who knew, knew only in part. Compounding this tragicomedy was something Smith did not mention but that is inseparable from men of ambition. Instead of admitting ignorance, those installed in the seat of decision feigned knowledge they lacked. They mimicked the words of those who claimed to understand, unaware whether they followed charlatan or genius. Despite the aura of formality and purpose, things tended to be hodgepodge. It was like a wild boar adorned in gown and cravat or a goat draped in gossamer silk. This was not rationality; it was an ornate exercise in exploiting the vanity of ignorant politicians.

The second aspect of this telling quote has to do with dupery. Here Smith gives a masterful view of the results that asymmetry in knowledge has in economics. Business leaders deceived the state because it suited business to do so. The traders used the opportunity to fatten their wallets without caring whether the enactment they promoted improved the state treasury. Their objective was to get Parliament to pass acts profiting their interests. They were not reticent to fashion arguments that made it appear that whatever benefited them would benefit the nation. The merchants were more concerned with the force of their arguments, not the truth of them. In this instance, Smith demonstrated that selfish pursuit of individual interests led to a less benign result than if these individuals had worked toward the national interest. So much for the invisible hand

always producing harmonic improvement. This scenario seemed to represent the back of the invisible hand. Apparently, the movement of this hand could just as easily orchestrate bald-faced deception inimical to the general welfare, as it could guide ad-hoc individual actions toward the public good.

Smith's depiction of this process is the appropriate place to debate the proper level of government intervention in the economy. Smith assailed government interference in the main, and did so with good reason. Governments of his day maintained a studied ignorance of most matters of economic theory and policy. Economics was a discipline in its infancy. Its enthusiasts were but a small pool. Government leaders had scant practical understanding and the thinnest theoretic understanding of the discipline. For Smith to repose much confidence in this turbid institutional setting would be to celebrate ignorance. Given a choice between the invisible hand and a reckless, nescient one, most of us would have chosen as Smith did. What was a compelling truth in Smith's time is less resonant today. Then, the complexity of decision making by the government was materially different from the complexity of decisions made by individual firms. However, the political economy has evolved to where this assertion has become less true. The observation may still hold valid regarding small firms of today. Yet, we now have large multinational, highly complex firms in many different sectors. The workings of these firms are more complex than the workings of national governments in Smith's time.

Development of large multinational corporations and financial institutions was an evolution beyond the purview of Smith's looking glass. Over the years, corporations have grown to a point at which a firm and its network of subsidiaries can be present in several nations, have thousands of subdivisions and departments, employ tens of thousands of people, and manufacture various products. The planning and production can be so complex and obtuse that years of investment, research, and lead time are needed. These entities are so

large and complex that they do not fit the depiction Smith gave to the merchant or producer of his day.

It is increasingly common that the chief executive officer of these firms may not be an expert regarding the products the firm makes. Instead of having great substantive knowledge or ability regarding the actual product of the firm, today's leaders are more adept at administration and management of large entities. They are usually not people with the substantive knowledge required to make the product, they are more adept at the procedural aspects of maintaining a large business entity. The decisions these firms make are no less complex than those made by modern government. These entities have evolved to the place where they have taken on the attributes Smith ascribed to government.

Consequently, the complexity of their operations and the decisions that fuel them give rise to greater chance of error. The more complex a decision, the greater the chance the decision will go awry, producing unintended consequences in its wake. The mega-corporation, Apple, introduced a vaulted new version of the iPhone in early 2010. The phone was the product of years of engineering, research, and testing. The amounts invested in the phone were astronomical. Yet, the product was bothered with significant and obvious flaws, such as a malfunctioning antenna. This is the plight of man when he ventures to the edge of complexity. He peers into the darkness and thrusts in his hand, unsure whether he will hold success or failure when he pulls it back.

Today's larger firms are as much administrative structures as they are productive units. They are as densely administrative as any government bureaucracy. As such, the invisible hand no longer has dominion in this complexity. The decisions of large corporations that promote their own welfare to the utmost will be more unlikely to advance the aggregate good than will government action intended to accomplish the common good.

Generally, decisions by the modern large firms have much wider consequence than did the decisions made by the firms of Smith's time. Today's large firms can influence the economy in ways the pioneer industries of that period could rarely do. The 2008 recession shows the international repercussions of the handiwork of a few large financial houses.

While that recession also demonstrated that our understanding of economics remains incomplete, much ground has been plowed since 1776. Economic thought has advanced and matured. Economics has become the driving force of government policy and purpose. Governments are more sophisticated and knowledgeable in this field. Only those governments in the grip of despotism behave as if economic improvement is not their primary task. Governments of developed nations must promise their citizens prosperity or those governments will not survive the next election. Governments of poor nations must promise economic development and a rise from poverty, even if they do not genuinely mean it. Even then, these governments are in trouble if the promises are not honored over time. Either the governments fall or they become overtly dictatorial.

The main problem of modern government is not lack of available economic information or knowledge. The central problem is that government is so heavily influenced by Money Power that government wittingly distorts economic policy to advance the interests of the financial class. This is much the same problem Smith described in the second quote. In the modern version, financialists have replaced traders as those inveigling government. Here, Smith's observation is timeless: The most powerful economic class always becomes intimate with government to the point where each becomes the shadow that follows the other. This coterie will use its intimacy to accrete more power and influence unto itself. Whether this accretion advances the rest of the nation is of no consequence to the calculations of the arrogating elite.

In Smith's day, all merchants, from the greatest to the most modest, were more knowledgeable about economics than the governments under which they operated. However, this observation has been eroded by the steady accretion and widening dissemination of economic knowledge over the past two centuries. Business people and their allies now often occupy the high political offices and the social station once the preserve of nobility. In the developed economies, the overall economic knowledge and expertise of government exceeds that of the ordinary small businessperson. While the astute small businessperson still knows better the intricacies of his own trade, the gap in knowledge between that businessperson and government about the operations of his business and how it affects the economy has lessened considerably. That government may occasionally know the intricacies of a certain occupation more than a businessperson himself should not shock anyone except the most rabid free-market extremist.

The second, more cynical Smith quotation reveals the invisible hand, at times, may be a manipulative one. The father of economics painted a picture of merchants actively dissembling to government officials. Smith viewed this behavior uncharitably. Yet, this is the very behavior his modern acolytes exalt. Waving the invisible hand in the face of all, they claim the only way to improve the national good is to allow business to operate as it will. The primary effect of this will be to give free rein to the wealthy; the secondary effect of this will be to give them more increase as well. They seek permanent tax cuts for the wealthy and the reduction of government regulation of the financial sector and other industries. They claim that cosseting those already in possession of vast holdings is how to best spur the general economy; the increasing accumulation and concentration of money will cause the rich to invest more in the economy, inuring to the benefit of all. This is the economic orthodoxy of today. Facts do not bear out this doctrine, yet market fundamentalist believe it because it profits them to do so. This is the grandson of the lie Smith exposed in his account about the traders and Parliament.

If alive today, Smith would bristle at his most vociferous supporters. Taking a single brick out of his edifice, they claimed the small piece to be the entire construct. They distort his work, then legitimize the abuse by gluing his name to their destructive creation. Smith sought to explain the world as he saw it. They seek to explain away the world's complexity. Smith stood at the hinge of a new age and presented his views of the potent advantages it represented. Smith was an economic prophet. As with all prophets, he saw through the darkness in part. Thus, we are wise not to take his word on all things. Also, we must understand the spirit in which he wrote. In many ways, the spirit of his writing may be more instructive than his actual analyses. He was a liberal progressive in his day. Today, he has been turned into the chevron of modern conservatism. It seems that the acceptance and interpretation of his work suffered the same plight that the words of every groundbreaking prophet suffer.

The more resonant a new philosophy, the more likely it will be misconstrued over time. Instead of the passage of time refining and correcting the philosophy, the opposite happens. The accretion of time increases the claims of infallibility of once radical ideas, rendering the ideas more inflexible in the process. The ideas no longer are just ideas. They become institutions, part of an establishment the original thinker would reject if still alive. As years become decades, these institutionalized ideas pass from the hands of those having open spirits similar to that of the author to those having closed minds. Liberality of spirit cedes to intolerance. The goal no longer is to see better through the dimness, but to claim the dimness has been lifted. There is no need to evolve new thought because absolute correctness has been achieved. The creative and bold insight of the past is replaced by the inflexibility of present-day caretakers who pass *ex cathedra* edicts in blind support of an idea born of fallible man. Soon the original voice of the liberal-minded prophet is drowned by the repetitious liturgy of inflexible priests of the new doctrine turned stale.

Revolutionary thought is transmuted into the established order in the span of a few generations. The philosophy no longer belongs to someone peering into the future. It becomes the province of those intent on turning the present into a past that never existed. Today's conservatives graft themselves to the doctrines of yesterday's liberals. What today's liberals advocate will become the foundation of 22nd-century conservatism.

The prophets of the Jewish faith gave way to the devious Pharisees whom Jesus saw as hypocrites blind to the spirit of the law. Shattering the pharisaic hold, Jesus spoke of divine grace and love. A new religion was created. Centuries later, medieval conservatism contorted that happy religion to the point where its leaders readily tortured people on the scantiest whiff of heresy. Had Jesus returned to earth, he would not have recognized their practices as the faith he taught. He likely would have been persecuted by those who claimed to love him. The men of the Inquisition had more in common with the Pharisees than they had with the author of their faith.

While not as brutal, the latter day followers of Adam Smith have committed a similar error. They have eviscerated the spirit of the man's work while extrapolating one single phrase beyond logical bounds, turning an almost casual observation about one possible outcome of free-market operations into a universal truth and the cornerstone of the political economy. This time, not only have the builders rejected the rightful cornerstone. they replaced it with one made of putty. What Smith characterized as plausible has been dubbed immutable. Judging from the totality of his writings, this is not something Smith attempted. He was more interested in finding the truth than in establishing dogma. Yet, belief is easier than veracity. Dogma can be simple and logical; the truth is bewildering, complex and often inconsistent. Truth does not lend itself to a unified theory that explains all things. However, dogma and doctrine pretend to such claims. For many people, false certitude is more

appealing than the uncomfortable twists and irregular tides of reality.

Thus, even when the operation of the free market is obviously harmful, the fundamentalist propounds it as wholesomeness, casting blame elsewhere for what all know to be a deficiency of the market. To paraphrase a much more infallible source, the invisible hand was made for man, not man for the invisible hand. The free market is not inherently virtuous, nor does it always produce the best for the common good. The free market is but an institution to help man battle scarcity. To the extent it no longer serves this decent purpose, it should be amended. As with anything made by man, the free market is populated by the panoply of human foibles. It defies logic to believe that we can always achieve the greatest good when each of us focuses only on his own interests. From the random jostling of self-interested actors, the grand order always emerges. This sounds wonderful, but it libels the truth. Later generations will chide us, not so much for concocting these myths, but for believing them long after their veneer had worn thin.

While elegant in its simplicity, the notion of the free market is simply too good to be true. Here we come to an interesting juncture. Both Hobbes's and Smith's followers start from the same premise: that man moves according to the dictates of his self-interests. These two schools then quickly diverge. Hobbes sees the reign of unfettered self-interests as leading to the portico of Hell unless checked by the advent of government. Smith's epigones assert this very same pursuit leads to the gates of Paradise if left unchecked by government. Starting from the same general idea, the two perspectives reach vastly different conclusions about the world this idea produces. If man were a uniformly rational being, the final conclusions of both schools would be as near as their respective starting points. Their conclusions diverge because the thoughts, ideas, and values of men are rational and irrational in different ways. Yet, the most rapid free-marketeer reconciles both positions through a neo-Social Darwinism that claims the powerful and rich have the

right to take even more, that the vast inequality of wealth and power is the proper order of things. They are Smithian in mind and Hobbesian at heart. They stand in utter contrast to those who see in Smith a call for progress and broad prosperity for all. This shows that, although all are equally human, we all view society differently because we all are not equally humane. We each exhibit and operate within our own sphere of rationality, belief and emotion. As such, the idiosyncrasies of our thoughts are proof positive that man is as irrational as he is its opposite.

We have dragged Hobbes through the streets to such an extent that we dare not further punish the man. It is time for the noble Smith to suffer his due. Smith was a secular prophet who oversold his goods to some extent. That error is understandable and forgivable. Smith stood in the middle of a bridge where he could see the war-checkered, unproductive past on one bank. There, leaders made decisions that subordinated commercial trade and prosperity to the trade in political and military power. There the wealth of nations was abbreviated by the primacy of martial and political issues. On the other bank, he saw a new future. He viewed the potential for expanded production and greater prosperity, if government let the competitive market have its way. A new reality beckoned. One never ushers in a new age by emphasizing the potential drawbacks accompanying it. Man does not accept a new philosophy by comparing the relative demerits of the old and the new schools of thought. Humans adhere to economic philosophy the way they select spouses. Everything is perfect. He sees no wrong in the intended betrothed while marriage remains a proposition. Only after the consummation, when abstraction becomes reality, does the formerly besotted notice the spousal flaws.

Smith heavily focused on the chance of increased trade, productivity and greater wealth. His desire to see a more productive, freer system blinded him to some extent to the bleaker traits of the system he helped call forth. He did not see the sweatshops, the exploitative child labor, the dangerous and shoddy products, the

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crass profiteering, and the environment degradation promoted by this system.

Essentially, Smith failed to see the ill effects of the competition capitalism would unleash. To his credit, he did admit the system could be gamed by the powerful to produce greater inequality. He recognized some government intervention was needed to check this tendency and to provide minimal social services. He even suggested progressive income taxation. However, he underestimated the deprivations capitalism would bring. For instance, he looked at colonialism and slavery as quirky institutions with little bearing on the increasing wealth of his and other western nations. He was wrong. These bleak institutions would contribute much more to the ascendency of the western political economy than Smith would admit. They also contributed more to the suppression of the victimized political economies than mainstream history acknowledges.

Smith concentrated significantly on that limited field of competition among producers of items. This narrow band of competition, in which one firm tries to outproduce or outsell another, is one of the mildest, most constructive forms of competition within the political economy. It was a mistake to extrapolate from this form of competition that all forms of competition would have a like impact on aggregate prosperity. There were and are forms of human competition that, left unchecked, might well turn into hot confrontation that makes society less functional and prosperous. Had Smith bothered a bit more with a long-term view of the evolution of the political economy, he might have seen a disturbing trend: the development of society is paralleled by the refinement of the types of competition that society sanctions as permissible. The more complex an economy, the more subtle, yet numerous, become its forms of competition. Many of these forms of competition can lead to debilitating social conflict.

While the competition may become more subtle in form, it can remain utterly dramatic in impact. For instance, slavery has been rescinded, but racism persists. Black people are no longer rural serfs. Yet, having become the urban poor, they remain dispossessed. Being widespread and subtle, modern economic competition has generated latent inequities and tilted outcomes that disfigure the political economy and significantly alter the power relationships between its primary components: finance, capital (means of production), labor, and government.

Again, the free market to which Smith subscribed has never been free at all. Its behavior had been circumscribed by countless years of trial and error and by intuitive guesswork as to what man should do to relieve his scarcity quotient. The general, but never unanimous, rule is that each of us is better off minimizing his scarcity through cooperative commerce. To work, this rule must be buttressed by convivial informal rules the operation of the amoral free market would discard as inefficient niceties. Yet, without these niceties, the market is indistinguishable from a jungle. (Pray tell, what reasonable person establishes shop and sells his wares in the jungle?)

Smith did not explore the possibility that the workings of the free market could lead to its demise. He assumed it would remain dynamic, yet adequately stable. However, by literal definition, the unbridled free market gives actors the latitude to destroy it. For example, if prosperous producers or sellers formed monopolies and these monopolies proliferated, the free market would be consumed by its own gluttonous children. More to the point, if those who were supposed to provide financial investment to the holders of real capital in order to keep the productive sector lubricated decide to hold fast to their money, the overall economy will soon asphyxiate. However, because financial speculation promises the highest profits, financiers may deny the real sector the funds needed to keep the production of tangible goods apace. If this were to happen, the productive sector would shrivel. Capitalism would weaken to the point where it collapses into itself.

By the workings of the free market, this exaltation of making money to make money, which is the core of financialism, may ultimately replace capitalism if left unchecked. This will change the world for the worse more than for the better. It will not be the first or the last occasion in which man outsmarts himself by taking a backward step while believing he is prancing forward. The only thing standing between the market and this sad fate is government, the economic counterbalance of last resort.

This brings us to another blind spot in Smith's vision. He failed to assess adequately the nature of the competition between the two sides of any economic exchange. Man has probably fought more often over a transaction gone sour than over another person outselling him. Yet, Smith focused on the competition between producers and sellers of like goods. This competition among like producers may be the most obvious form of competition, but it may not be the most important to the stability of the political economy.

There is another more fundamental competition in play that is less well understood. This competition has weakened capitalism and brought financialism to our doorstep. Smith believed that individuals endeavor to produce the greatest value possible so that they can earn maximum returns. Only part of this statement is true—the latter half. Man almost always seeks the greatest return. However, he does not necessarily seek to produce the best item to get it. He performs to his utmost only after all practical, less costly alternatives have been foreclosed. Man seeks to trade his scarcity to another person. As such, he seeks to expend little but gain much. When the seller offers his goods, he does so at a price that, if fetched, will lessen his scarcity quotient below that which existed prior to the transaction. The buyer behaves in like manner. He seeks to purchase the desired item while spending as little as possible. He buys as much of that item until the relative scarcity of the desired item aligns with his relative scarcity in currency or in the other items he possesses or seeks to possess.

Each party to the transaction seeks to outdo the other. Each seeks to offload some of his scarcity onto the other. Thus, when buyer and seller meet at the intersection of commerce, one aspect of the meeting is cooperative in that each seeks to tender something the other wants. However, the other aspect of this meeting is adversarial, driven by competition to pass a bit of his own lack to the other person. The conventional wisdom describing most economic transactions as "win-win" situations is manipulative and misleading. Many transactions are unfair because the parties do not have bargaining parity.

In the average modern consumer purchase, a person entering a store must pay a set price for an item or leave empty-handed. We can question whether this exchange proportionately and fairly reduces both sides' scarcities. Both sides rarely profit to the same degree in terms of the proportionate decrease in scarcity. The consumer usually finds himself in the position of buying from a vendor who does not give him the fairest deal, but who gives him the least unfair deal from among possible vendors. The vendor that offers a deal that only cuts into the buyer's purse one inch instead of two is the vendor selected by the relatively powerless consumer. However, this does not make the vendor or the deal a preferred one in most positive sense of that term. It is, instead, the deal most tolerable because it is the least injurious. However to call the deal a good one that equitably advances the interests of both parties is erroneous. Such a description masks the adversarial qualities inherent in the transaction.

The fact that this type of competition is inescapable spurs man to measure his well-being simultaneously in both relative and absolute terms. At any given moment, the wealth and scarcity of each person and that of the entire society are both finite and static. This further encourages man to look at his economic endeavors as having a zero-sum quality. The more he measures his welfare in relationship to another person's holding, the more he competes with that person.

When such competition becomes too frequent and too intense, it translates into a tension that engenders conflict.

This type of competition pervades the free market and leads to structural antagonisms that can shake the capitalist edifice. On one street, the owner of a firm seeks to hire labor at the lowest wage possible. The seller places the highest price tag on his wares. The buyer looks for the cheapest item. The financier charges the capitalist the highest possible interest to hire the financier's money. In these and all other transactions, the side of the transaction that holds the item considered scarcer wins the exchange. When labor is scarce, wages rise. When labor is bountiful, the worker takes whatever job he can get, at whatever wage offered. Faced with this volatile ebb and flow, employers organize themselves to battle labor, and labor unites to get the better of employers. On another street, consumers are incensed upon discovering that manufacturers knowingly placed dangerous additives into processed food and cut corners on car safety, shaving production costs to maximize profits.

Just as the individuals involved in a discrete transaction compete against each other, the different collective groups that comprise the major economic sectors compete against each other. For the sake of brevity and clarity of explanation, there are three main ridges along which the private sector is divided: labor, capital, and finance. Without a mechanism to delineate the proper balance between these three major economic sectors, the system would devour itself. After shouting a resounding, "I told you so!" our old friend Hobbes might indeed be entitled to the final laugh. Fortunately that mechanism—government—does not have to be invented. It has always been with us. However, it must now be redefined to tackle the new challenge financialism presents.

There is another subtle inconsistency in Smith's universe. With regard to international trade, he expected that nations would produce those things for which they had comparative advantage because that would serve the objective of increasing overall global

wealth. With regard to the domestic economy, he expected people to act in ways that maximized their individual economic gain. However, as we have discussed, the increase in overall wealth does not always jibe with individual maximization. Yet, he did not adequately explain why national objectives regarding international trade would differ from individual objectives within the domestic economy, particularly since the contents of international trade consisted of individual domestic actors acting out their selfish interests. The fallacy here was that he assumed that following the dictates of comparative advantage led to a maximization of economic gain for each individual producer, as well as each nation. This is not so.

Imagine two nations, one agrarian and the other industrial. The former cultivates tomatoes most efficiently. The latter manufactures cars almost effortlessly. The latter tends to dominate its trade with the former because the product from the assembly line is always dearer than the produce off the vine. The agrarian state decides to manufacture a certain number of cars in order to lessen its dependency on the industrial state and increase its leverage in their relationship. When drought comes to much of the world and food prices rise, the industrial state begins to cultivate tomatoes and other produce despite its lack of relative efficiency. Again, these acts take place because man and nations are all relative beings. They measure their well-being not just in absolute terms, but also in relationship to what others have and what others can do to or for them. Consequently, a factor in measuring their well-being is gauging how dependent they are on other actors for their essential sustenance. Man and nations are, always competing against those with whom they enjoy commerce.

Government to the Rescue—Sometimes

In the end, Adam Smith deserves accolades. His input was vast. No intellectual could have done more than he did at the time. Yet, his findings were incomplete, and sometimes wrong, as when he categorically opposed high tariffs as constituting a mean brake

against productivity and wealth creation for the tariff-imposing nation. Alexander Hamilton and Deng Xhiao Ping demonstrated that Smith's prohibition was not as airtight as he hoped. Similarly, the rule that economic prosperity is predicated on small government is likewise fallible. China and the rest of the East Asian economies have minced this admonition, showing it to be but a value judgment, not an objective truth.

To discern the proper role of government in the modern political economy, first it is prudent to identify the fundamental roles government plays in every era, everywhere. There will be no attempt to trace the beginnings of government, because that pursuit has no meaning. Man never existed without government. There was no time in which man existed when government did not exist. Man did not create government any more than man created himself. As man exists, so does government and society. The issue has never been how government was first formed. It was formed the moment two people lived together. The material task is identifying government's core functions and how these functions evolved as man, society, and man's needs became more sophisticated and further removed from the dictates of mere physical survival.

Government was not an artifice that man had to construct as he does a building or an airplane. True, as man progressed toward greater complexity, society and the government that regulated it gained in complexity. During this process, man regularly amended the shape and form of the institutions that governed him. That man periodically cobbled and tinkered with government does not diminish the fact that government always existed. The essential truth is that sane man does not question the existence and need for government. Those few anarchists and nihilists who disparage the existence of government are looked upon by the great majority of humankind as disturbed folk who bay at the moon during the light of day. If not barking into the sky, they are otherwise absorbed in reading crudely printed apocalyptic pamphlets filled with dense jargon indecipherable to all but them. What do these nihilists and

anarchists do to combat government? They organize themselves into disciplined groups with leaders and other officials with well-prescribed roles. They are defeated before getting started; to reach their objective of ending government, they turn themselves into the very thing they loathe.

There can be no form of society, no matter how rudimentary and bare, without there being a form of government. The family is the most fundamental unit of society. It also represents the basic unit of government. Everywhere, from the most basic to the most elegant of cultures, parents govern the family. We so accept this as being such the natural order of things that we never question it. We usually underestimate its value to the evolution of social and political philosophy.

The traditional familial unit addressed omnipresent scarcity of two physical essentials: security and sustenance. The family unit protected its members. In addition to being man's first defense force, the family was also our first corporation. It gave members different functions to perform toward the feeding and sheltering of its members. One person would hunt and another would gather. With agriculture and animal domestication, a further division of labor occurred. Some families began to produce things in surplus of their foreseeable needs. They would search for others with whom they could trade their surplus in exchange for other goods. Not only was the family the irreducible governing unit, it was the world's first commercial enterprise.

In its most rudimentary form, government seeks to fulfill the same roles the family filled. In a substantial way, a nation and its government are sublimations of the family unit. (Even gang members, no matter how vile and rough their deeds, consider their organization as their family.) This is why great (and not so great) leaders are deemed the fathers or mothers of their nations. Patriotism is but the love of family on a larger, more abstract scale. This emotional attachment is not to the government but to nation,

king, and flag. Yet, government must promote and encourage this attachment, for the government is both the ruler and the servitor of the nation. It is best if such an attachment is based on some heroic or remarkable deed that occasions the establishment of the nation. A collective entity that speaks of something heroic unites people, as does no other symbol. If no such story exists in the historical annals, one must be invented. Through this process of attachment, a group of disparate families and clans becomes a people and a people becomes a nation.

The core functions even the most basic government must address are security, consanguinity, and the provision of sustenance. These are the eternal themes of governance because the world is an uncertain abode for human habitation. Each of us knows we will perish, but we do not know the how or when of our end. We want to live as long and as happily as possible. No person wants to be ignobly clipped down or cut short. However, the world is one of few havens, yet plentiful danger. Life is more apt to send peril our way than to deliver pleasure. To a large extent, the presence of government is man's acknowledgment of the ubiquity of the challenges to his mortal existence.

If earth were a cornucopia, we would scarcely need government. However, we need government because everything on earth, especially man, falls short of its high mark. Man is the worst offender. He is at once the most able and sentient of creatures, but he is also the cruelest and most wasteful. Man has learned through socialization in the family and through the course of human history that cooperation usually is the most efficient vehicle available to minimize scarcity and to reduce the conflict arising from that scarcity. However, the duality of human nature prevents cooperation to the fullest degree. Just as man is led to cooperate with his brother, visceral eruptions urge him to compete as well. Because we can never have everything, there is never a dearth of opportunities for man to clash over those things in lack. Society is an amalgam of cooperative and competitive relationships. The most prosperous and

stable societies learn how to increase the cooperative aspects of social and commercial relations, while adeptly regulating the competitive ones.

Government must ensure competition among its citizens does not develop into perpetual, widespread conflict. The stronger the government, the less prone will its people be toward violence against each other. The weaker the government, the more likely people will allow their competition over scarce items to lead o resort to violence to achieve their objectives. Controlling competition at its basic level means controlling violence. In situations of scarcity where physical survival rests in the balance, man becomes prone to extract what he needs through drastic and rash means and measures. Even where survival is not at stake but dire poverty exists, man is still captive to the urge toward violent confiscation. Consequently, the starving man in Sudan or in Bangladesh will fight another person. Also, the poor urban youth in the *favelas* of Rio or the super-ghetto of Los Angeles will fight and kill a similarly situated youth over the slightest provocation or for the smallest profit. To prevent society from degenerating into a situation where the balance between cooperation and competition becomes adverse, government must assert its role as the sole authority dispensing violence.

No government can long endure, nor can society prosper, unless recourse to violence is lawfully constrained. Government's attempted monopolization of violence is the most beneficial monopoly that humankind has known. It serves as a condition precedent for economic prosperity of all except the criminally minded. However, government is as flawed as those who comprise it and those subject to it. There have been tedious, middling governments that have done nothing but live off the populace without advancing the common stock. Mean governments have pocked human history by using their powers to do inexplicable harm. The darkest chapters of human history are written primarily by the hand of governments turned sinister. Terrible wars and massacres could not have happened without government having lost

its way. However, most of the great things man has done could not have been accomplished unless government paved the road for the advancement. The trouble is not government. Nor is the answer to banish or strip its institutions to their barest. The problems of government are the problems of man. Government is no worse than man himself. Just as we have good and decent individuals, we have good and decent governance. The obverse is also true; sadly, we are reminded of this latter truth more frequently than we would like.

The violent breach of peace can never be eliminated; however, imperfection does not invalidate the effort. The breach actually affirms the utility of the prohibition. There is a vast difference between violence as a social norm and violence as illegitimate criminality. There are societies where violence has become accepted behavior. Each of these societies has a semblance of government, albeit base. Not one of these places knows economic prosperity, but all are quite familiar with its opposite. In every such place, competition and confrontation outweigh cooperation. This is Somalia and the gang-controlled neighborhoods of urban America. Neither site is a likely candidate for the construction of a factory or office building. Any place awash in violence becomes destitute of economic activity.

During the course of human progress, as government wrested control of violence from the individual, government developed mechanisms to institutionalize this control. Police, criminal law, and the courts all represent mechanisms intended to constrain civil violence. Additionally, themes of common national identity and purpose are promoted in all societies to help blunt internal violence. The greater the belief in this social or national consanguinity, whether based on fable or fact, the less its adherents will act violently toward others.

By controlling violence, government directs man from disruptive activity, steering his energies into more pacific and constructive avenues. Directing people away from violence as an instrument of

social behavior creates positive economic good. With violence disallowed, man naturally takes up other means, since idleness is generally an ineffective response to scarcity. If one cannot forcibly take a desired item, he must acquire it by means of voluntary exchange. This has two further consequences. To have an exchange, both sides must have something valuable the other party wants. Moreover, he must offer the item at a price the other party will pay.

Once humans started to focus on improving their scarcity quotient by nonviolent means, they concentrated on exchanges and trade with other people. The prohibition against violence filliped commerce. However, this more congenial perspective did not mean the absence of competition or that the existing competition could not descend into conflict if care was not taken to regulate commerce. Although not nearly as dangerous as direct civil violence, the two types of competition associated with commercial exchange become more intense where civil violence is effectively outlawed and where individual behavior is channeled toward commerce.

Those who supply the same items compete for buyers. This type of competition is good in part because it promotes efficiency, provided the suppliers do not attempt to gain buyers by physically limiting the access of other sellers to the buyers or by otherwise disturbing the stocks of the other suppliers. In other words, this competition is beneficial as long as government keeps the competition within the confines of the suppliers racing independently and in mutual noninterference toward the finish line of potential buyers. Government does not allow one party to prevent or retard the another's attainments. Competition is restricted to seeing who runs the fastest. Thus, each producer tries to make his item by the least costly method so that he can sell it more cheaply. This dynamic is good for the consumer but problematic for labor. To minimize costs, the producers will squeeze every labor dollar to the utmost. What a person gains as a consumer, he may well lose as a worker. Again, good and bad, cooperation and competition, pervade everything.

The competition between buyer and seller inherent in the generally cooperative commercial exchange will necessarily increase the more society is directed toward commerce as the primary means for reducing individual scarcity quotients. Although these exchanges appear cooperative, they can foment strife unless regulated appropriately. When both sides have relatively equal bargaining power, there is little need for regulation. However, when one side has too much power over the exchange, the transaction can become unfair. The side holding the scarcity advantage will exploit the advantage to the hilt. By demanding and exorbitant price, this party will transfer much of its scarcity to the other side. It might transfer more scarcity than the other party should be required to handle in light of that party's role in society and in light of the necessity of maintaining the volume of transactions needed to improve society's level of wealth creation.

For example, a terrible storm hits a city-state, wiping out a significant portion of the staple crop. The price of the staple multiplies abruptly. Sensing they could make even more money, the few wholesale producers decide to hoard the item. They agree to inflate the price. Only the wealthiest retailers now can purchase the item. In the end, the poorest citizens must depart with much higher payments for a much smaller fraction of the beloved grain. People begin to starve. Society and the overall economy falter, since a vast segment of the population can no longer maintain itself. Labor productivity slackens. Unrest brews. In such a situation, any government worthy of its name must intervene to ensure that massive starvation and social upheaval are not artificially induced just to profit a few.

Where labor has been plentiful but jobs insufficient, employers bargain labor down to scavenger wages. Again, the poor are brought to a place where life is barely that of subsistence. This may benefit the producers, but it heaps unfair scarcity on the laborer. This type of situation is inimical to maintaining a durable political economy. Governments facing this situation usually take much too long to

rectify it. However, the noted delay does not mean the situation is not a serious imbalance. The reason for this governmental abdication is not superlative. The delay occurs because most governments and their leaders align with the moneyed and powerful, not with the poor and wretched. Power and money attract each other, but poverty only attracts more of itself.

A more likely modern version of this opportunistic behavior occurs when the working class laborer exhausts his low wages before the end to the month brings the next payday. He borrows from loan sharks against the coming pay. Because the lender knows the worker is desperate to feed his family and lacks other options of assistance, the lender charges usurious interest on the loan. Repayment of the short-term loan consigns the man to fall into the same pit the following month. Debt bondage traps the hapless laborer. He is chained to debt as much as the 19th-century sharecropper was tied to debt by the inflated prices he was forced to pay at the company store. No longer hoping to progress, he works so that his current poverty does not worsen. Any society that allows this malpractice not only is unjust, it is one that will suffer economically. Such a practice stifles commerce by suppressing demand and produces a devouring poverty that gnaws at the social order in a manner that inevitably spawns conflict. This is why most enlightened states have laws prohibiting usury in lending.

Government often regulated commerce for its own survival. For example, when their nation is at war, producers of necessary materiel always seek to extract the highest price for the goods needed to prosecute the war. With its own survival at stake, government feels no compulsion outlawing the price gouging. Talk of the sanctity of the free market becomes muted by the gravest necessity: survival. Despite the blather of free-market advocates, government has always been in the business of regulating business.

Government also has been the prime vehicle of several important innovations, the absence of which the modern economy would not

have been born. Two of these vehicles are money and private ownership of land.

Free-market fundamentalists would have us believe God created the marketplace before creating man, and that private property and money existed before society. These ideas fit into their ideology, but they do not accord with history or common sense. Private property and money did not precede man and society. These are ideas that came about as economic man sought ways to reduce scarcity. Private ownership of land was not inherent in man. Generally, land was communally owned during the earliest stages of human existence. Only as man became a more sophisticated economic being did private ownership rear its head. Man was moved by the desire to lessen scarcity by increasing the volume and velocity of commercial exchange. To do so, he had to increase the amount of goods he owned. As land was a prime factor in producing goods, man could have more goods for exchange by owning more land. Additionally, ownership of land would mean greater security and control of the lives of others linked to the land. This political and social power decreased the owner's sense of vulnerability, which is but another form of scarcity.

In other words, once man discovered surplus could be had from the land and that surplus could be traded for other valuables, the race was on to claim land for himself. Land moved from communal, to feudal, then to private ownership in capitalist economies. As it became more an item for private hands, it also became progressively easier to transfer. The objective was to have the surplus and economic power that land provided due to its unavoidable use for all forms of productive activity. Every economic activity, particularly activity involved in the production of tangible goods, required use of significant tracts of land. In the present day, we cannot imagine life without the private right to land. Yet, a millennium ago, the idea of private ownership was alien to most of earth's dwellers. To this day, traditional societies throughout Africa, Asia and Latin America cling to the notion of collective ownership of land. The conversion of land

from collective to individual ownership was done by act of government. But for this government intervention, capitalism would have been forestalled until such other time when this intervention would be perfected.

Money is the other great intervention. Because money is a massive government intrusion into the economy, free-market advocates should conclude that money, not just the love of it, is evil. However, when free marketers cavil about government, they conveniently forget this aspect of governmental contribution to the economy. At the current stage in the evolution of the political economy, we take money as given. Money constitutes the channels through which commerce navigates. Money is ubiquitous and, in all ways, highly desirable. We cannot think of life without money, any more than we can imagine the sky without sun or moon. Yet, money has not always existed as we know it today.

Some form of barter may have been man's first trading system. However, barter did not last long because of its inherent constraints. Man searched for a way to facilitate more commerce to reduce scarcity. The idea of borrowing and the use of some instrument agreed to represent the value of what was borrowed was established quickly in order to liberalize commerce. Precious metals, such as silver and gold, became ideal mediums on which to establish agreed measurements of value and to expand commerce. Because these metals were always scarce, easily portable, and imperishable, they were in constant demand. They became universal commodities that were just one step from becoming money.

The conversion of these metals into currency was at first an agreement among individuals. It was an act of economic man. However, confusion and uncertainty accompanied this move, as each private currency reflected the different strengths and flaws of its issuer. Commerce demanded uniformity. Such uniformity could be accomplished only by act of government. Moving aside private issuers, governments began to issue money. This was nothing but

government intervention in the market, making the market a larger, wealthier, more efficient one.

The government assuming the role of currency issuer and regulator did more than simply increase the volume and the velocity of trade. Currency also encouraged and enabled long-term business investment. No sane free-market adherent dares returning to a time when government-backed currency did not exist. Government intervention to create money was just as important to the development of the capitalist system as was the Industrial Revolution. Yet, if today's free-market extremists were alive during this earlier age, they would have groused that the innovation was an unnecessary government interference designed to undermine prosperity by giving government great control over the economy. If such an opposition would have been successfully made, we would be slogging through a pre-industrial economy today.

A telling example of government's development as an increasingly constructive economic player is found in government's relations with banks over the centuries. During the feudal age, government was at its arbitrary worst. Governments of that period focused on power, war and conquest. Their concerns about money boiled down to whether financial houses had enough to fund the sovereign's next martial excursion. Government literally took money from the banks to keep these martial misadventures alive while staving off sovereign bankruptcy. This pilfering was inimical to the economy, let alone unsettling to the banks.

Over the centuries, a steady evolution has taken place between government and the banks. By 2008, the roles were reversed. With the advent of financialism, banks became the institutions propelled by madcap adventure. They were also the ones plunging toward insolvency. After two centuries of slow accretion of economic knowledge and the dissemination of this knowledge throughout government, banks were no longer the ones rescuing the sovereign. The sovereign now rescues the banks.

Moreover, the creation of fiat currency, provided government financial depth it lacked centuries ago. With fiat money, a sovereign could never go broke as long as its debts were denominated in its currency. Thus, during the recent financial crisis, sovereigns were compelled to salvage the financial sector. The relationship between government and banks had undergone a radical reversal. Because of the pandemic of financialism, banks acquired a brigand's mentality. But for government intervention, the international financial system would have collapsed so far, and so fast, that the gravitational pull of its descent would have pulled the rest of the economy toward depression.

Government intervention serves purposes other than to avert catastrophe. The world's two largest economies prove government intervention can lead to prosperity. Neither the American economy nor the Chinese economy is a product of free-market purity. Both are examples of intelligent government intervention that compensated for deficiencies in the free market. Although America is now the fount of free-market puffery, it has not always been so. Those who bother with such prosaic things as history should note that America came to its undiluted love of the free market late in life. America converted into the truest believer in free markets only after World War II, when it emerged from war relatively unscathed and possessed of the world's largest economy. It was like a cheetah racing sloths. Of course, it wanted the race to be as devoid of obstacles as possible. The logic compelling the largest, most powerful economy to espouse the free market was so obvious that it requires little expostulation. That this idea would also help contain the communist Soviet Union gave geopolitical reinforcement to a decision already made.

Prior to the world wars, America was widely viewed as a protectionist nation. This epithet can be traced to the very inception of the republic. It is an apt description. The architect of the American economy was the first treasury secretary, Alexander Hamilton. Hamilton and the new nation were faced with two basic alternatives

regarding the economic path to take. The country was largely agrarian. Most of this activity was centered in the southern part of the nation where slaves, fertile land, and temperate weather were abundant. America had a small, active merchant class and a nascent corps of manufacturers in the North. The drafter of the Declaration of Independence, Thomas Jefferson, was then secretary of state. He was a southern plantation owner. Jefferson wanted America to remain an agrarian republic. He looked down on business, viewing manufacturing as an untidy affair left to baser sorts whose money-grubbing ways would destroy democracy should they become too powerful. While enlightened in political philosophy, Jefferson borrowed heavily from the aristocratic past to anchor his economic ideas. America must thank Providence that Jefferson's pen was enlisted to draft the Declaration and not the new country's economic strategy. The task of fashioning the economic blueprint would fall to Hamilton.

Hamilton could have taken the path recommended by that other document published in 1776, Adam Smith's *The Wealth of Nations*. Much to America's relief and progress, Hamilton refused the route of unfettered free trade. Instead, he blended a bit of Adam Smith with a bit of mercantilism. A pragmatic, business-oriented man, Hamilton understood the operation of the free market would block achievement of the desired objective: turning this new nation into a powerful, industrialized nation that could withstand the encroachment of any European power.

Because Smith's writings had not yet achieved the status of canon, the brilliant Hamilton had no compulsion in picking from them what he wanted and discarding the rest. Hamilton did not share Jefferson's dream of a utopian agrarian republic. Hamilton saw the world in tough contours. He recognized the implications of the emerging Industrial Revolution. If the fledgling republic were to hold its own among the great powers, it could not permanently rely on the ocean to shield it from the influence of stronger nations. Nor could it be a nation of farmers importing most of its finished goods

from other countries. That would subject the nation to a slow return to the inferior status it had just fought a valiant war to end. Hamilton eschewed the free-market rationale because its operation would have relegated America to a secondary status. England and, to a lesser degree France, had a head start building their manufacturing sectors. England could produce finished goods more cheaply than could America. If America were to ply the road of free trade, it would have to forego manufacturing because England held clear advantage. America would be reduced to trading its agricultural goods for English manufactured ones.

Orthodox economic theory, as contained in textbooks, recommended this type of lopsided trade based on the theory of comparative advantage. Fortunately for America, Hamilton saw the theory for what it was. He realized his nation did not live in economic theory, but in the real-world political economy where actual power and strength mattered more than did the genteel quality of one's economic philosophy. Smith's prescription might have maximized overall global economic efficiency, but it would have sealed America into an inferior trade position with England. His country would be fixed into a subordinate position that Hamilton rejected.[5]

Thus, Hamilton devised a system under which the South continued to focus on agricultural activity. Meanwhile, the North industrialized. The new nation promoted industrialization via two critical measures. Trade barriers were instituted to discourage the massive export of southern agricultural goods. Ensuring that agricultural goods remained at home helped develop internal commerce in America. This encouraged the building of roads and canals and ultimately to the construction of a railroad system facilitating inland commerce, making the transport of goods less dear. Robust infrastructural development sponsored by government reinforced the growth of internal commerce. These measures not only ensured a steady supply of raw material for northern industries, they also ensured the costs for said goods would be lower than had

there been international competition to purchase the same products. This helped make northern industry more competitive against its overseas rivals.

Perhaps the most important thing Hamilton did was to impose high tariffs on imported manufactured goods. In doing so, he forced America to buy domestically manufactured goods. The rest of the story is undisputed. America rode this policy to become the greatest manufacturing nation by World War I. Defying free-market and free-trade principles, Hamilton crafted the most successful national economic strategy until the recent Chinese expansion. Hamilton realized that free trade was made for man, and not man for free trade. Had he slavishly followed the dictates of free trade, America still would have ultimately industrialized. However, its industrialization would not have occurred when and at the pace it did. American history and that of the world would have altered, most likely for the worst.

Present-day China stakes claim to a greater, swifter economic transformation than the American emergence. China's is the world's second largest economy. In the space of a generation, it has transformed from a peasant nation to become the fastest growing industrial state the world has ever seen. It made this jump by casting off the communist prattle symbolized by the Great Leap Forward. The Chinese also avoided the free-market self-righteousness that detrimentally infected the Anglo-American economies.

China made its historic transformation by following the mercantilists who preceded Smith. Although mercantilism is discredited as an intellectual school, it remains a strong, if unnamed, component of many successful national economies. China is just the most obvious recent example. Other Asian economies and Germany have significant mercantilist traits. The mercantilist Chinese focus on increasing industrial production mainly for export. Growth in domestic demand and supply is ancillary to this prime objective. The Chinese government has been the controlling hand directing the

economy. There has been nothing invisible about this. The Chinese economy is an economy that operates in consonance with general market principles, so long as those principles serve the overarching goals set by government to expand aggregate production and exports.

As did America in its adolescence, China has demonstrated that the free market is not the most effective way for a large political economy to develop. A significant degree of government regulation, if not direct management of this endeavor, is mandated. However, America has buried this reality under a barrage of ahistoric fables about the infallibility of the market. Now America opposes the development of a national industrial policy, although its manufacturing sector atrophies by the day. Alexander Hamilton would not recognize this type of statesmanship in the face of the evident erosion of the nation's manufacturing prowess. America's prosperity had heretofore afforded it the luxury to bask in the intellectual illusion of an economy divorced from politics and national security. That illusion is now too costly to observe.

The American and Chinese examples of national development show that hybrid strategies combining government management with aspects of market discipline foster quicker, more durable prosperity than does blind adherence to free-market fundamentalism. Another argument is to be made. In a modern complex economy, free-market fundamentalism invites greater potential damage than if government maintains oversight and management of certain economic processes.

In the bountiful waters of the American Gulf, hundreds upon hundreds of underwater oil wells exist, pulling oil from beneath the deep waters. On April 20, 2010, the Deepwater Horizon drilling rig leased to British Petroleum (BP) by Transocean Ltd. exploded, killing several employees and occasioning the largest oil spill in American history. Roughly a million barrels of oil seeped into the Gulf,

jeopardizing its ecosystem and the economies of the adjacent states. BP's response to the disaster was weak and uninspired. The company acted disinterestedly in rectifying the mess; eventually, public outcry and government pressure forced the company to energize its containment effort at sea. The government took control of the clean-up effort along the affected coastline. The spill was not cured for over 100 days. The damage reached in the billions of dollars.

Free marketers twisted awkwardly when the disaster occurred. Their unease was appropriate. Human anatomy being as it is, rarely does one get the opportunity to see his Achilles Heel in front of him. The event was a startling expose of the weaknesses of the free market. The anatomy of the tragedy should make all but the most ardent free-marketeer penitent. The oil facility was supposed to be government regulated and inspected. However, under the lackluster regulatory outlook of the Bush administration, inspection of this facility was a regrettable farce. The company was allowed to do as it pleased. It followed the logic of the market; it saved on costs to boost profits. The company flinched in spending on safety precautions. The facility became a tragedy in waiting. The waiting ended that lethal day in April. Thereafter, events assumed a surreal quality. BP did all it could to shirk liability. It first tried to suppress knowledge of the spill's full extent, attempting to keep bad news from threatening stock prices. When the unprecedented nature of the spill finally leaked into public consciousness, BP still took a laggard's approach to containing the leak. BP was discovered not to have a realistic emergency plan because it had not wanted to pay for such a plan, let alone pay for the safety equipment a genuine plan would have demanded. BP devised ad-hoc solutions to end the spill. Several efforts failed; the delay in ending the leakage further damaged the Gulf's ecosystem and local economies. Again, everything was done without a sense of the environmental destruction taking place, but with a keen eye on the BP financial ledger. The company spent as much time trying not to spend money as it did trying to cure this act of irresponsibility.

The situation is a clear indictment of the philosophy that touts an unbridled free market. Had the government not been influenced by that philosophy, inspection and safety efforts might have been adequate to have identified the defects before disaster visited. Causes of the explosion could have been cured before the waste of life and resources. Once the explosion occurred, the containment and clean-up efforts could have been more efficient and rapid. However, consumed by the profit motive, BP was sluggish to spend money that would not produce a financial return. Squeamish about criticism over interfering with a private company, the government danced tepidly and left too many important post-explosion decisions to BP. Not until the full magnitude of the disaster was known and the public became outraged, did the administration ask BP to establish a $20 billion recovery fund. Even with the need for government action so obvious, many free-market fundamentalists criticized the government for this imposition against a private firm. This reasonable intervention was decried as the end of free-market freedom in America. Those free-market fundamentalists cared little about the mess in the Gulf. They saw the environmental degradation as the cost of doing business.

However, they missed a vital point. The degradation did not just harm BP's operation. It impaired the economy. The errant operation of this complex facility not only damaged the erring company and the environment but also wrecked businesses totally unrelated to BP's stock and trade. This aspect of material damage to unrelated enterprises is a constant factor of today's complex economy that was not so obvious in the economies of yesterday.

The productive processes of today's economy are more elaborate than in any past age. Companies are larger, as is the overall population. The economic space is more densely packed functionally and geographically. There is simply more collateral impact from economic activity than in any period. Pollution and environmental imbalance are the most obvious manifestations of this impact. If free marketers had their way, firms would solely commit to the pursuit of

profits. Firms would use the least costly modes of production, which likely would be less safe and produce greater pollution. They would also dispose of that waste in the cheapest way. This would affect surrounding homeowners, families, and businesses. While competing against rival producers, the firm would likewise be in conflict with its neighbors. The company's behavior would lessen property values and make it difficult for other firms to conduct their businesses even when those firms were not in competition with the miscreant company. In this situation, the invisible hand would orchestrate a cacophony of angry voices and colliding interests instead of harmony. Without the intervention of government, things would get out of hand.

What Do All These Hands Signify?

In the end, economics is a ubiquitous part of modern governance. It has not always been so. For much of history, the world's political economies were ruled by monarchs or some variety of authoritarian. These leaders, more adept and practiced in the use of power than in the efficient allocation of productive resources, sought to make their dominions the most powerful, not necessarily the most productive. Today, we take for granted that long-term power and sustained economic productivity are intimately related. However, this was not a widely articulated axiom centuries ago. While money has always made the world go around, power was able to make money bow to it. Those who held nearly absolute power could call money forth and bend it to their use. Rulers did not have to listen to constituencies or worry about elections. However, governance, law, behavior, and power relationships have changed. As each man, from the highest to the modest, pursued avenues to lower his scarcity quotient, the roads of commerce widened and became more prominent. The invention of money was a tool that further widened the way. Later, science and technology brought forth untold productive capacity. Enter the Industrial Revolution. Enter Adam Smith.

Smith was a product of his times. He can only be defined within the context of its peculiar demerits and attributes. He extolled the free market because it was better than the structure preceding it. Smith's less able adherents would attribute perfection to what was only an improvement. The belief in the free market as panacea was given birth by lesser minds, not by Smith. Yet, even for its strongest adherents, the belief is conditional. None would dissolve government regulation of violence, government issuance of currency, or the innovation of private ownership of land. Free marketers are really not opposed to government regulation. When regulation serves their purpose, free marketers do not criticize it. They are merely against government intervention that forces them to act on considerations different from their pursuit of profit. Free marketers want the selfish freedom of lessening their scarcity quotients, regardless of the consequences their unbridled efforts may have on the overall political economy.

The free market is but a tool toward prosperity. It is not prosperity nor does it guarantee prosperity. At a certain phase in man's existence, the free market may have been the most effective vehicle to prosperity. That phase has passed and is long gone. A new phase of economics has dawned. While principles associated with free-market economics—such as efficiency, productivity, and supply and demand—remain pertinent and controlling, the free market must give way to greater collaboration between government and the private sector.

The sanctity of the free market has crashed into the wall of reality. First, the workings of a free market are internally unsustainable over time. Any human endeavor that promises pure freedom is the road to its opposite. If the market were truly free, it would allow for producers and sellers to form great combines dominating the economy. Those not in the combine would be ground underfoot. We would not speak of economic freedom, except for the few and powerful who have advantage over the many. Durable democracy imposes constitutional limitations on its high offices to

prohibit someone from using the power granted him to turn democracy into despotism. Likewise, the economy must have a regulator that prevents the free market from generating excesses that would destroy the market. That regulator must be government.

Government participation in the economy is intrinsic. There can be no economy without some form of governance, even if it is but a set of rules and customs. Rudimentary governance existed alongside rudimentary economies. They both have progressed, perhaps not always in lockstep, but with an eye toward each other. Evolution of government has taken it from relative ignorance in economic matters to a level of expertise equal to, if different in perspective from, that of the private sector.

Given the complexity of modern economics, too much can go terribly wrong to leave things to chance. Without government to balance and abridge competition while encouraging cooperation where possible, economic practice would result in such conflict that current levels of prosperity could not be maintained. Greater prosperity would be impossible. Moreover, the world has become a more crowded place than in Smith's time. In his era, the greater space per person meant an individual could act selfishly, yet have minimal impact on his distant neighbor. Today, no neighbor is distant. We live and work on top of each other. This means our actions ramify more broadly with respect to the number of people affected. In this situation, the naked pursuit of selfish interests will cause greater trouble than during Smith's time. The workings of the free market must be moderated to give this greater number of people a chance for each to improve his scarcity quotient without damaging someone else's.

In the end, government intervention preventing the 2008 financial crisis from degenerating into depression shows that government has acquired the knowledge necessary to be a constructive economic agent. Of course, governments sometimes will err just as private firms do. However, a mistake by a private firm is

not greeted by the ludicrous howl that private firms have no business in business. Government should not suffer like derision. Errors do not mean government is inherently adverse to economic achievement. The mistakes mean nothing more than government is comprised of mortals. Government's most essential role in the modern economy is to counterbalance the excesses and deficits of private-sector dynamics in a manner that heightens prospects for cooperative growth. Government must play the role of regulating the private sector in order to push private behavior toward long-term sustainability. Because government is less dominated by short-term economic motives, it can play this moderating role, although government itself is constrained by the influence private actors can bring to bear on it. Representative democracies are also constrained by their electoral time cycles. Although demanding, these political cycles are not as brief and restrictive as those faced by business.

The political economy is comprised of four major strategic components: labor, capital (means of production), the financial sector, and government. Each of these is composed of thousands of subsets. Historically, the major battle line was drawn between labor and capital. This conflict was reinforced by the one between consumers and sellers, labor being synonymous with consumers, capital with sellers. In the traditional capitalist economy, the financial sector was an adjunct of capital. However, this is no longer true. The financial sector has done more than declare its independence from the capitalists. Financialists want to dominate the economy. Thus, we have booming banks and their massive accumulation of cash while the rest of the economy is flaccid and deprived of the liquidity to revive it. Showing that financial houses have acquired the influence once reserved for the industrial titans, banks were more easily and generously assisted by government than were the major automobile makers during the 2008 recession. The auto companies were once the symbols of American capitalism. They are no longer. Banks now command the high perch.

With the advent of financialism, a new competition has emerged in the economy. The interests of the financial sector and the industrial sector no longer merge. They are as much at loggerheads as is industry and its work force. The economy has become more competitive and potentially more conflictive. This means it will be less productive and prosperous in the aggregate. This presents new policy challenges for government. This new fact is not limited to America. Because other nations, including Nigeria, have substantially adopted the American financial model, they have unwittingly imported this intense clash of sectors into their economies. Instead of mediating between labor and industrial capital, government must deal with three parties: labor, industrial capital, and the financial sector. Mediating a three-party battle is vastly more difficult than arbitrating a two-party contest.

Moreover, government is often tossed into the melee as a participant. Government is an institution like any other. It seeks to perpetuate itself and to expand. No institution made of man seeks to streamline itself, let alone do away with itself. That goes against our nature. Those who bemoan the fate of small government bemoan in futility. The objective cannot be reducing government. That is as likely as someone trading in his automobile for a covered wagon. The objective must be to redefine government's role in light of the fissure that financialism has caused between the banking sector and industry.

As China now shows, and as America did before, the true lesson to be learned is that the best way for a nation to develop is to concentrate on building its productive capacity. To do so, that nation must avoid two interrelated tendencies. First, it must not blindly adhere to free-market practices. Second, it must forego the temptation to think that genuine wealth lies in the quick accumulation of money. It must see wealth as the steady improvement of the means of production. With efficient means of production in hand, money can be made.

Government regulation is required to prevent a capitalist economy from turning into its financialist mutant. To prevent such a reckoning, government must enact policies that steer people away from confusing money with real wealth. Investment must be monitored and regulated so that sufficient investment is made in productive endeavors. Likewise, the speculative investment in financial paper, the investment of money in money, cannot be allowed to exceed levels that prevent the quanta of investment in the real economy needed for its stable expansion. This is the formula needed to maintain the proper strategic balance between the real and financial sectors.

Chapter Six

Money and the Crises that Pursue It

Foolish man recklessly chases money, yet money is wiser than he for it rarely chases man.

The police inspector walked briskly to the injured man's bedside. To hear the faint voice of this man who had barely managed to loosen his soul from the grip of death, the inspector noisily pulled the chair closer to the bed's edge. The tiled floor wailed as the chair's steel legs scratched against it. The inspector sat down. Before the inspector could utter a word, the man spoke, his voice stronger than the inspector had anticipated.

"What happened? What the... Why I am handcuffed?" The man questioned with an air of authority.

"Sir, I am a police detective. I need to ask you a few questions if you don't mind?" The inspector stated without responding to the injured man's questions.

"Ask what you will. Yet I will not answer until I have my answers. Again I ask: why am I handcuffed?" said the man with an anger that seethed through his injuries.

"This is standard procedure for people who appear to be dangers to themselves," the inspector explained as diplomatically as his acidic temperament would allow.

"Danger to myself! What kind of foolishness? Is this some trick? Who put you up to this? Who put you up to this?" The man

demanded, visibly agitated and now shaking the bed rails to which he was bound.

With this outburst, the inspector quickly arrived at the edge of his patience. "Look my friend, you can act dumb and stupid all you want, but it won't help you a damn inch. If you hadn't noticed, this ain't heaven. It could be Hell, but it ain't that either; but I guess the streets look the same. This is New Jersey, buddy! New damn Jersey! Got that? Your stupid suicide failed; in fact, it sucked big time! Not only did you not kill yourself, you destroyed hundreds of thousands of dollars in government property and created a public hazard in the process. Let's put it this way. If you hadn't broken some bones and didn't have all these tubes poking out of you, I would be kicking the living stuffing out you right now. We would be holding this nice little interview in the comfort of the county jail and, as I said before, you would be the recipient of all the courtesy that your little act demands. Do you get my drift, your royal highness?"

"I don't understand," the injured man stuttered.

"Look, don't play with me, man! I saw the car you drive and all the documents in your briefcase; you are obviously a rich and educated man. Stop playing the dummy. That ain't goin' ta work on me."

"What gives you the right to speak to me that way, you caveman? My taxes pay your salary, so I can talk any way I want to. You are supposed to be a public servant, so act like it, you moron. Your mother must have been a longshoreman for you to talk like that. Since I pay your salary, at least pay me some respect," the injured man blurted, while trying to sit up in the bed so that he would seem less weak and vulnerable.

"Are you nuts? Excuse me. You must be damned insane? You have the gall to ask me to be polite. If left to me, I would roll you out

that window to finish the job you couldn't complete, you lunatic!" The inspector bellowed.

Just then, the Chief of Police entered the room. "John, back off. That's enough. Don't you know who this is?"

"Yes, I know. The craziest loon I have come across in 20 years behind this badge. That is who this is, sir."

"Stand down. Don't get smart with me, bub! You're a small dog with a big bark, but I am the big dog with the biggest bite. If you want to test it, keep it up. Better yet, just get out of here. You're like a blind hippo on a greasy floor. You can't help but smash into something breakable, can you?"

"I cannot help but smash and break? What about that nutcase in the bed? I'm Fred Astaire, the epitome of grace, compared to him. Why are you so worried about this dude, by the way? Is he your brother or something?" probed the inspector.

"Get out of here. Get out right now. You are an inch away from insubordination. Can you afford another mark on your glorious record? Get out of here before you regret being born," ordered the Chief.

"Better regret being born than being in the same room with a nut and the chief of bootlicking," the inspector muttered as he stomped from the room.

"What did you say?" the Chief demanded.

"Nothing except that I was going to the store downstairs to buy some nuts and get my boots licked—I mean shined, sir!"

"I know mules with more class than you. Get out of here and go to that wreck you call a home, you louse."

Turning toward the injured man, the police chief gently questioned: "Why did you do it? Why kill yourself with all that you have going for you? Talk to me! We have been best friends since college. I'm lost to learn that you were going through such turmoil yet said nothing to me. I thought you were happy. We spend so much time together, but I noticed nothing amiss, nothing foul. I'm perplexed!"

"Dear friend, you have gone beyond perplexity. You apparently have reached the intersection of confusion and insanity. Has the entire world gone mad? What have you been drinking? I thought that Neanderthal who just left was bad. You, who should know better than anyone, now mimic that ignoramus. It seems my best friend has been snipping at the parsnip."

"Peter, you are slick but not that slick. You tried to kill yourself. Why?"

"Kill myself? In what universe? This is beyond parsnip. Have you been lifting from the department's drug confiscations for your personal pleasure?

"That obfuscation might serve you well in Washington but not here, Peter. You are handcuffed to a hospital bed. This is no time to be slick. You drove your car off a collapsed bridge and into the river. That's right. The river, my friend, the big visible, cannot forget it's there, river! You tried to kill yourself. Between the two of us, whom will the world think mad?"

"What? The bridge was out! Is that what happened? I was wondering what came upon me. Thought I'd got in a wreck."

"You didn't get in a wreck. You are the wreck. You ignored all of the flashing signs that the bridge was out and then drove straight through the roadblock into the water. Sounds like suicide to me."

"You fool. You have less intelligence than I estimated. Why would I kill myself? I have so much money. I certainly don't want to die anytime soon. I am having too much fun. If I were to crave perverse enjoyment, if ever I wanted to see someone perish, I could hire someone to kill him for my amusement. I would not have to kill myself. What would be the point?"

"My point, exactly. I don't understand you. You drive off the bridge then protest that I'm the fool! So, it takes special genius to end up handcuffed to a hospital bed. If that is genius, may I remain the dolt that I am. If you are so holy and sublime, why did you drive off a bridge in broad daylight, your Eminence?"

"I thought the bridge was up. Both my map and the car's GPS said this was the best route to get to my summer home. I have always taken this route, and my map and GPS have never failed me. They have always been correct. I just ignored your stupid signs."

"Wait a minute. You are telling me this was not a suicide attempt."

"Of course not."

"Instead, you drove off the bridge because you ignored the warnings along the way. You ignored your own eyes to follow what your map said. How could you rely on the map? It is not real. The map is only a drawing, a stupid drawing."

"You say that because you are a Philistine. These things are more reliable than human beings. Humans have repeatedly failed me, but these devices have never crossed me. I believe them more than I do any person."

"Even your own eyes?"

"Haven't your eyes deceived you before?"

"Unless my ears now deceive me, I now have heard it all. I now know how foolish a brilliant man can be," the chief remarked soberly as he slowly turned to walk from the room. His gait was the shuffle of an old man carrying too heavy a load.

"Hey, aren't you going to take these handcuffs off me?"

"In good conscience, I cannot. I dare not. I believe what you just told me. Because of this, I now view you as more of a mortal danger to yourself and others than had you actually attempted suicide. You, my friend, are indeed as mad as you are brilliant. To believe in images and not in the facts before your very eyes makes you dangerous indeed."

The Role of Money in the Evolution of the Economy

At its essence, money is not wealth, but the representation of wealth.[1] Like any map or drawing, money represents something it is not. A representation cannot be more genuine than the thing it reflects. One can see an image in a photograph, recognizing it to be a mountain. Should one be foolhardy enough to attempt to scale the photograph, he may find himself committed to special type of institution. In that money has become the universal unit by which we measure wealth, it essentially is the valuation of value. Those who mistake money for true wealth or value blindly chase it while discounting the value of those elements of the political economy that constitute real and durable wealth. As such, money is like a willful and enchanting agent who represents a homely, introverted boss, i.e., wealth as defined by the production of goods. It is tempting to forget the underlying relationship and mistake the agent as the master. In the end, the agent is unable to do those things inherent only in the master. Overreliance on the flashiness of the agent will result in disappointment. Money cannot provide the utility that tangible objects of wealth can. Since time immemorial, falling fool to money's alluring impersonation of true wealth is how selfish man

has driven himself off the bridge and into the swell of economic calamity.

Money is not inherently bad. It is a tool made by man for man. When employed wisely, it provides as much benefit as any human invention. Without money, commerce and production of goods would not have matured and reinforced each other as they did. The world probably would not have entered into the unprecedented productivity of the Industrial Revolution when it did. In fact, the Industrial Revolution and many advances that came before it would have been unimaginable without the presence of money. Although the mean consequences of the Industrial Revolution continue to haunt us, the world is better because of the increased commerce and production the Revolution brought. Without the advent of money, life would be harsher and scarcity more biting. There would be more misery and poverty than we now have.

When used prudently over the longer term, money facilitates the creation of additional wealth by inciting the employment of human labor and other resources that otherwise would lie idle. When used imprudently, it can dissipate wealth more swiftly than its wise resort builds wealth.

Because we have been so conditioned to its presence, we act as if money is intrinsic to life. Yet, money did not always exist. In fact, it is nothing more than an idea; it is a sublimation. Money was invented out of man's desire to expand and ease commerce. As he always will be, man was unsatisfied with the level of scarcity at which he lived. Money began its life as a sort of memorandum of a transaction where value or wealth was received by one person from another, an acknowledgement of an obligation from buyer to seller. Money came about because of uneven levels of human scarcity. One person had something that another person valued more than the owner valued it. Thus, the buyer would either trade something else or pledge to repay the seller. These pledges were symbolized by some tangible object. Use of these objects would crystallize into the concept of

money. Evolution of money was based on the notion that, to reduce his scarcity by increasing commerce, man needed to make "value" tangible and portable across distance. Later, he would learn to transport money across time as well.

As with all things created by man, this invention called money was imperfect. While money represents a great advance, there is an inherent contradiction and tension in its function. Money is given precise numerical values used to represent economic value or wealth. However, economic value or utility is a subjective phenomenon. The use of numbers to represent value is inescapable. Without this usage, universal exchange is unattainable. This necessity also creates an imprecision. The imprecision arises because we all may agree on the numbers inscribed on currency without agreeing on the exact value of the things money can purchase. Some of us may highly value certain items, while others value a different set. As a corollary, we also do not value money the same way, although we agree on the numerical denomination of each currency note.

Man desired to extend commerce because his low level of commerce was insufficient to quench his needs and squelch scarcity. Barter of physical goods for other physical goods had obvious limitations. It required both parties to the transaction to want what the other had. It also required the physical transportation of the items to the place of exchange. Economies could grow to a certain level but no farther under these strictures. In reality, the restraints imposed by barter were so obvious and ubiquitous that barter probably did not last long as an important form of commerce and trade. As mentioned in preceding paragraphs of this chapter, ancient peoples developed innovative forms of proto-currencies, trading customs and trade accounting to allow for commerce beyond that of simple barter.[2]

Enhanced commerce necessitated increased production. The increased production and the trade that followed it ultimately

encouraged technological innovation and invention on an economically significant scale. Eventually, inventions were such that they introduced new machinery and methods that were genuine technological and economic breakthroughs. These added new and more dynamic chapters to man's productive saga. Items and products outside the imagination of preceding generations became possible. The passage of time brought with it an accumulation of wealth and technological knowledge. From this process, the Industrial Age was thusly born.

Innovations spawned by the desire to increase economic production would not have been as facilely achieved but for the usage of money. These innovations and other improvements required the investment of significant time and resources prior to any demonstrable economic success of the novel thing. Had simple barter been the dominant economic structure, such long-term investments would have been difficult. First, the individual or firm seeking the investment would have to locate the precise individual in possession of the tangible items needed to build the contemplated invention or innovation. This is of no great hardship; a similar exertion is required under a monetary regime. However, the next requirement differentiates barter from the monetary system.

Under nonmonetary systems, those same potential suppliers must also agree to depart with their wares as investments in an endeavor that might not produce tangible gains. Even if gain were generated, it would be in the future, while the suppliers would prefer immediate payment for their wares. Not many sellers would be willing to depart from their wares in exchange for the promise of future payment conditioned on the success of an unsure application of new technology. For those intrepid suppliers who might hitch themselves to such a venture, another problem would arise. Valuation of their return would have been problematic. In a nonmonetary system, the inventor or builder could only repay in kind with what he produced. Translating that into the repayment value of the goods he had received beforehand would be

problematic, particularly if there were a significant lapse of time between the investment and its in-kind dividend.

This created a severe dilemma. If someone invested their own wares in another person's venture, that investor expected a handsome repayment commensurate with his sacrifice and the opportunity costs of that sacrifice. However, if an inventor built a shoemaking machine, he could only repay in shoes. If the investor were a manufacturer of nails or sheet metal, obtaining a pile of shoes was of little solace unless he had a latent passion for haberdashery. Such an expansion of business interests was possible and occasionally transpired. However, such fortuitous coincidences were too infrequent in number and scale to give shape to a growing economy. Moreover, even if the nail manufacturer or the metal supplier were amenable to taking payment in shoes, there would be a devilish problem in calculating the appropriate return in terms of shoes for their investment of nails and metal in the shoe factory. The attempt to translate the current value of an item into the future value of another item would have turned the calculation into an act of divination so enveloped by a subjectivity that it discourages investment.

In a barter system, little complex or long-term investment could take place. Effectuating such investment would require the perfect alignment of all elements in the same place at the same time. This happenstance would come with no greater frequency than a solar eclipse. In a moneyed economy, the task is infinitely less severe and more hospitable to success. As in the barter system, the prospective inventor has to identify potential suppliers of items and goods needed to bring to fruition his appointed task. The similarity of steps and effort ends there. In the moneyed economy, our eager inventor need not worry whether the hard-knuckled, practical people from whom he seeks to obtain supplies want to invest in his venture. Their investment preferences become irrelevant. He either buys their goods with his own or borrows funds. At most, a supplier might extend goods on short-term credit. However, investment in the

actual enterprise expands to comprise the pool of those who have money to invest. The investment needed to launch his endeavor likely will come from a complete stranger because investment now will be in currency and not in kind.

He will visit either a financial house or an individual known to invest in new contraptions to find the needed funds. These financiers trade in money. Traders in money are a unique sort. In a barter economy, traders exchange their wares in order to gain wares of another kind. Traders in money ply their craft in order to acquire more of the same. The traders in money care not if the potential investment makes shoes, cars or igloos on the equator. If they believe the venture profitable, they will part with their money based on the probability that they will receive more money at a specified future date. Their concern is that the borrower sells enough of his product to repay them in the coin they provided him.

The long-time use of money as an instrument of representing portable value slowly cleared the path for thought processes that lent themselves toward more complex long-term investments. Complex investment resulted from the evolution of the economic mind caused by the advent of money. The use of money would not be static over time. Its presence and utility encouraged people to think about increasing money's utility and function. People would reshape their minds and economic behavior to include intangibles like financial investment, long-term lending, interest rates, and other concepts inapplicable in a barter economy. Money, a tool developed to improve upon barter, became a vehicle for important economic functions outside the scope for which money was initially invented. This is evidence of the restless mind of man always seeking new ways to lessen his scarcity.

It was upon these intellectual and financial investments that dynamic capitalism and its unprecedented creation of wealth were based. Investment is but a form of credit. The presence of money made the practice of debt and credit as ubiquitous as money itself.

Money is essentially a medium that allows for a species of economic transactions, such as lending and investment, that are, essentially, forms of debt creation. This is where money *qua* money has its inherent value. Unfortunately, financial speculation would inevitably sprout from these innovations due to the inescapable rule that everything man uses, he also abuses. The development of debt and credit fueled economic activity exponentially. Prosperity can nowhere be obtained in generous dimension, absent an accessible system of credit. However, greed tempts people to abuse this credit vehicle to the point where prosperity evaporates like a dream, yet poverty lingers like a nightmare.

In the modern economy, paper money is the practice. The evolution of human exchange moves toward greater velocity and greater abstraction in the choice of the medium used to conduct transactions. Man went quickly from barter to use of precious metals as a universal commodity. Those metals were converted into the first currency. For greater ease, the metals were replaced by paper money. Paper money initially derived its worth from the amount of gold and silver a nation retained in its vaults. This meant paper money was two steps removed (with gold or silver being the intermediary step) from actual items of tangible wealth; paper money became the measurement of another measurement of wealth. In time, this unnecessary connection to precious metal became tedious. Instead of being an element of prudent monetary policy, "metallism" straitjacketed national economies. Although factoring in many historic financial crises, basing currency on precious metals endured for generations until the pressures of the 20th-century economy severed this connection to metal.

Encaged by the Great Depression, world leaders made a desperate innovation born of necessity. In 1931, England left the gold standard to avoid further deflation. By 1933, America was among the last of the major nations to leave the deflationary standard. Although freedom from the standard abetted the economic recovery of these nations, economic myth and tradition die hard. In

the face of irrefutable evidence that the gold standard restricted economic growth and was susceptible to the bottoming pull of deflation, nations returned to a variant of the gold standard after the war. They viewed the measures taken during the Depression as extraordinary ones not to outlive the danger posed. They failed to see that the extraordinary danger was an inevitable byproduct of their normal financial practices.

By 1970, the gold-backed fixed exchange rate system was popping at the seams. The following year, nations broke permanently from the gold standard, freeing national currencies from the traditional link to precious metal reserves. The leading economies instituted the fiat money system. Currency would not be pegged to a nation's gold reserves. Instead, the world would measure a currency's worth by the strength or attractiveness of that nation's economy. That a nation may hold a significant portion of precious metal in reserve became just one factor injected into this calculation.

Today, use of physical bills is increasingly giving way to recourse to electronic transactions. Transactions that used to take months now take days. Those that took days are done in minutes. What was once accomplished only as fast as the human hand is done faster than the blink of an eye; money now moves at the speed of light. While velocity has its many attributes, it also has demerits. The increased speed of our financial transactions has occurred at a pace faster than the evolution of the human mind and much faster than the movement of actual goods. To a significant degree, this causes us psychologically to decouple finance from the real economy. We underestimate the effect this greater speed has on our perception of the role of money in the economy. The more quickly financial transactions take place, the more the human mind is susceptible to interpreting these exchanges as proof that money is more the source wealth and not just its measure.

Money is more an abstraction now than at any previous time. Ironically, this means money is actually revealing its true essence,

which is more notional than material. The utility of money has little to do with the idiosyncratic value of the items used to fashion the currency. The utility of money derives from the notion that money conveys a universally understood and accepted measurement of value. Gold standard advocates erroneously assume that precious metals inherently constitute real money and that any other form of currency is abhorrent. This is a case of mistaken identity. Gold standard advocates mistake the physical manifestation of the concept of money for the concept itself. Precious metals were used as money because they were among those few items that were universally regarded as valuable. However, people tended to forget that these items were valuable and suitable as coinage only after going through the intense, costly process of refinement. For instance, the price of a refined ingot was more than the cost of a huge lump of unrefined material, although both contained the same amount of pure gold.

Thus, gold and silver owed their function as currency not just to their inherent properties but also to the human ingenuity of forging the metals until they represented something most men would accept as items of easily calculable worth. In actuality, the use of these items as money has as much to do with technological advance (metallurgy and smithery) as with anything inherent in the metals. Pure gold and silver rarely are found in a natural state; they are as much "man-made" and thus as equally "artificial" money as is paper. These metals are simply commodities, as is everything tangible. Money in its essence is an intangible we have historically represented by use of tangible items. Money and the material used to represent it have much the same relationship as the mathematical concept of "zero" has to the actual writing of the numeral.

Severed from its customary tether to gold and silver, the value given to paper money has no relationship to the actual value of the paper and print on it. The difference in the actual value between the paper and the print comprising a $1 bill and that of a $100 bill are negligible. The costs for producing a $1 bill are not one-hundredth of

the costs of producing the larger denominated bill. Instead, the production costs of both are roughly equal. Thus, the value of the bills has little to do with their inherent value in terms of the materials used to make them. Legal and social conventions establish the fact that paper money has economic value. (As previously stated in this chapter, the actual transactional value given any specific currency is based on the soundness of the underlying economy. Thus, legal convention establishes the fact and existence of value. National economic strength establishes the particular amount of value the currency will carry.)

Being simply paper, money derives its value from a source other than itself. That paper money is legal and, in most cases, the exclusive mode of tender within a jurisdiction lends the requisite value. In effect, money is an indefinite promissory note issued by government to the economy. A promissory note has no great value outside the reliability of its issuer. For instance, a promissory note written by a fraud or a suddenly impoverished man has no value beyond that of the paper upon which the note is written. There is little value to it except for insulating cracks in the walls of a hovel or plugging holes in a pauper's shoes. If such a note slips through your hand on a windy day, you will scarcely exert yourself to chase the hapless paper. However, we all place great account on a note written by a wealthy and honest man. If a sudden wind pulls the note from his hand, the startled holder will race after it with single-minded purpose. The holder will not stop running until he reaches the doorstep of Hell. If the sum of the note is sufficiently large, he will not hesitate to transgress those gates to retrieve it. A prudent man will hold a $50 note from a credible government that never defaults rather than hold a $100 bill issued by a government that honors but one quarter of its pledges.

The fact that money has no intrinsic value isolated from some economic activity is further evidenced by the operation of deflation and inflation when the supply of money changes. If a large amount of money is suddenly but evenly injected into the system and if the

economy is at or near full employment, prices of most things rise in rough proportion, but the relative values among the material goods remain unchanged. If a woolen coat is valued as twice that of a pair of cotton trousers, the coat will remain twice as costly as the trousers, notwithstanding the injection of new money. When money is withdrawn from circulation, prices drop in approximate proportion to the amount withdrawn. Again, the relative values among goods remain unaltered. The coat remains twice as costly as the trousers.

However, if the cotton harvest is weak, not only will the trousers cost more, the value of the trousers relative to the woolen coat will also change. The coat would no longer command the value of two pair of trousers. Moreover, other items that use cotton and items that were substitutes for cotton would experience a price rise not only in absolute terms but also in relation to other items in the market. A fluctuation in the supply of an item that has intrinsic economic value will cause its price to change while also altering its comparative value to other items. If the supply of petroleum declines, prices of refined petroleum products and all other items that use a significant amount of petroleum as an ingredient will also rise. However, the price of organically grown carrots will not be much affected. Thus, petroleum-related products will be dearer in comparison to carrots. However, money can change in supply without directly affecting the relative values among other items. Money has this rare property because it has little real value except for its utility as a vehicle of exchange and investment. Again, money is akin to the operation of a zero in mathematics. A zero has no value except when placed in relationship to something that has independent value by itself.

This is not to say that changes in money supply have no effect except to increase or decrease overall prices in proportion to the change in money supply. Changes in money supply have significance beyond this mechanistic proportionality. It takes some time for this

proportionality to affect the entire economy. When money enters an economy, it does not come to everyone at the same time.

Everyone does not simultaneously obtain an increase in money proportionate to his or her prior relative level of monetary holdings. Instead, changes in the monetary supply disproportionately benefit those with the fastest access to the new money, the denizens of the financial sector. These players will be enriched above other economic actors to the degree they make first use of these funds before the widespread circulation of funds manifests its overall effect. As such, the demand of these "first users" for certain items or their desire to engage in certain activities will expand before the rest of the economy adjusts to the change in money supply. This modification of relative monetary holdings and the resultant increase in demand among these first users will increase the relative prices of the items sought by the first users. Because these items will show a spurt in relative value, more producers and investors will be attracted to these higher-valued items once the additional money starts to percolate through the entire economic system. If the supply or access to money continues to expand, the relative values of the items the new money chases will continue to climb faster than will the price of other items.

This dynamic contributes to asset stampedes, including the mad dash in the housing sector that crippled America in 2008 and the banking sector/stock market frenzy that rocked Nigeria the same year. A change in money supply experiences three lives. It immediately and disproportionately benefits those who obtain the funds first. This usually means the large financial houses and banks. Second, the change will affect price levels, but not always in direct proportion to the percentage change in the money supply. Some prices will change more than others, depending how the first users deploy the money. If they use the money to fuel additional financial speculation by investing in risky assets, the price of those assets will creep up while the rest of the economy stagnates. If the funds are channeled toward the real sector, industrial production and

employment in that sector will rise, provided there is adequate demand for the items of additional production. If government passes the new money to the poor and working class via assistance programs, consumer demand for many items will increase. Third, the long-term impact of the aggregate change in the monetary supply will contribute to relatively uniform price changes across the entire economy.

Because everyone has been conditioned to grope for money, most people never consider the fact that money has little value in isolation from any other economic activity. To have value, money must be placed into exchange. If a person were given a lovely mansion or a diamond ring to have for his entire lifetime, he would feel an increase in wealth even if prohibited from further conveyance of the gift. However, give that same person $1 million with the caveat that he must not use it for any type of transaction; he will feel nothing except frustration. The vast sum of cash will be no more valuable than a stack of paper. If given the choice of holding the million or exchanging it for $1,000 that can be used in exchange, he will opt for the lesser amount.

However, few will opt to take a cheaper home or an inferior ring in exchange for their more expensive counterparts. Imagine a man is offered 10 diamonds if he vows to leave and never to visit his homeland again. Further, imagine his brother is offered the equivalent of $10 million in that nation's currency with the same caveat that he never return. The peculiar thing about the currency is that it can only be used in that nation. The man will eagerly accept the diamonds and never again see that nation. The brother's views regarding the currency will be ambivalent. Only if certain that he can trade the funds to someone going to that nation will he make the pledge. Otherwise, he will be permanently eschewing his beloved homeland in exchange for a worthless heap of paper.

Those with the best insight into the frailty of money are the counterfeiter and forger. Money is akin to a painting by a recognized

master. Its value far exceeds the value of the material elements—the paint and canvas—comprising it. Because it was painted by a renowned figure of rare artistry, the item is deemed valuable. Likewise, money is deemed valuable because it is a promise made by the one and only government with jurisdiction over the particular location where the money is used. A forgery of the masterpiece consists of similar amounts of paint and a comparable canvas. The actual costs of these things approximate those used for the genuine item. However, one item is the desired article; the other, although giving the appearance of the cherished article, is repugnant. Collectors will exert themselves to great lengths to obtain the genuine painting. Once in their possession, they hold to it at great costs. However, the forger has no desire to keep his replica. He seeks to place it in commerce. With fortune as an ally, he hopes to gain a payment near to what the real painting fetches. The forger does not hold his work dear because he knows its value is negligible. Like money, the forgery is only a representation of the thing of real value. Thus, it is valuable only to the extent the forger can sell it.

The same goes for the counterfeiter. He seeks to dispense with his fake wares as soon as possible, for they hold no value. Although his actual costs in producing the fraud is close to the government's printing costs for legitimate bills, his bills hold no value except to the extent he can place them into exchange. In terms of the intrinsic value of the real and fake money, the difference is negligible. Yet, in terms of the comparative legal and commercial values of the two, the difference is as vast as that between a well-cut diamond and a broken bottle.

Still, the counterfeiter hopes to gain things of real and tangible value in exchange. He knows his quest is possible because he is dealing in symbols of wealth and not with items of real wealth. His heart pounds as he enters into every exchange because he fears his trickery will be detected. Every successful dupe brings him real wealth, shabbily acquired. Yet, because of the chance his fraud can be detected, the counterfeiter cannot take for granted a successful

conclusion of the deceptive exchange. The extent to which the transaction is uncertain is the extent to which the counterfeiter intellectually understands that his wares have little value. The counterfeiter, more than any other human, realizes the illusory nature of money. He realizes this because he compounds the "legal" illusion of monetary value with an illegal one of his own.

This brings us to the great irony or fallacy attached to the use of money. When a new currency is introduced, many of its holders fidget anxiously. They do not know whether it always will be honored. They are eager to part with it to get the actual material goods they wanted. As time passes and transactions become certain in the new currency, holding the money becomes desirable. Instead of seeking to offload the currency, people now struggle to get more of it.

Because of the manner in which our political economies have evolved, money has become one of our most honored and respected instrumentalities. It is always used and always honored. We all pay for items with money. For our labors, most of us are recompensed in money. Because of this constant usage and the reliability thereof, the human mind errs toward the understandable delusion. Because money always fetches the items we seek, we come to see money as having the same intrinsic value as those items. When a worker pays for something, he says he did so with money. Superficially, he is correct. His statement is factual, but untrue. The reality is that he pays for the item with a portion of his wealth-producing labor. The money is just the portable item used to measure the value his labor produced.

The nearly ironclad utility of money produces a dangerous operant illusion. The more efficient our use of money as a means of exchange, the more we come to see money not as a conduit to wealth but as wealth and value itself. Every morning, a child sees his parents kiss, and then one of the parents leaves the house to go to work. One morning, the child hopes neither parent leaves home that day. To

prevent either parent from leaving, the child begs the parents not to kiss. They are perplexed but make the promise because of the child's tearful entreaty. Although they do not kiss, one of them races off to work, leaving the child utterly disappointed. This disappointment represents our fate when we see money as wealth.

As more and more people mistake money for wealth, they chase it more than they chase the actual goods that bring wealth and lessen scarcity. This skewed perspective produces an unhealthy appetite for paper. There will always be people who chase money as if it were the vital end. This has been the case since money was first introduced. It will always be. If their number is kept small enough, this group does little harm. However, this type of behavior is inimical if followed on a broader scale. It is akin to taking too much water from the communal well. If the majority acts in this manner, the well will dry; chaos will follow. When a large group of important economic players becomes an avaricious herd seeking money more than they seek to be productive, the economy slips into danger, both moral and mortal. That the average person makes this erroneous linkage is of no real consequence to the extent that most of the money he earns is used to fund daily consumption. He converts money almost instantly into the purchase of goods. That he confuses money for wealth is no problem because it leads to the same behavior had he been thinking correctly.

The great irony is that when too many people mistake money for genuine wealth, money loses its utility as a fillip for creating wealth. Instead, money becomes a source of drag and inertia because it will fuel speculation in the further acquisition of money instead of expanding productive investment that produces tangible goods. The overvaluation of money and the unrelenting pursuit of it lead to speculation in nonproductive assets and a concomitant decline in investment in productive enterprise. Additionally, money becomes a very potent political tool to influence government and the officials who run it, particularly in a political economy without a firmly regulated financial sector. Just as money is used as an instrument of

financial investment, credit, and debt creation, it may also be employed to reshape politics. After all, money is a creation that gauges and distributes value and scarcity; the concepts of value and scarcity, when applied to the wielding of power, are as relevant to the politician as they are to the economist.

In the hands of the unenlightened, fiat money further encourages the illusion that money is real wealth. This has profound implications. A nation that supplies its own currency and transacts most of its business in that currency can no longer go bankrupt unless it volunteers for that sad predicament. The nation's money supply is no longer constrained by the quantity of gold it keeps. This means a nation can pursue deficit spending without peering over its shoulder to see if its gold stock is dwindling. The nation can always print enough money to pay its debts. The threat of national insolvency becomes less of a problem. This provides significant financial freedom and latitude. At a superficial level, it seems a nation "can produce wealth" simply by "printing money." However, this happy freedom is not without danger. The abuse of this tool can lead to chronic and acute inflation—the persistent and steep increase in nominal values that so far outpaces the growth of real wealth and value that the currency becomes debased, leading to economic wreckage.

However, we have come to believe in the short-term reality of easy wealth creation by printing money. Since most decisions are made in the short-term, fiat money has led to a sense of freedom and freewheeling behavior in the financial sector. Subconsciously, it has reduced societal fear of debt. Nations and their financial sectors are no longer as apprehensive about debt as they were a century ago. We are more likely to assume a debt, thinking the money to repay it will somehow come. However, our familiarity with debt has a dark side. It makes nations and financial houses less circumspect, not only with the amount of debt but also with the reasons for which they assume debt. National governments are more willing to amend their priorities and spend money on nonessentials. Given the power and

influence of the moneyed sector, this means marginal spending will disproportionately favor those already with money and power.

For instance, governments should be able to engage in "debt free" deficit spending by simply issuing currency to pay directly for contracted goods and services. However, financial elites in most nations forced through laws that government deficit spending must be financed through bond transactions with private investors. This highly enriches a few large private concerns but places an unnecessary surcharge on the public by creating unnecessary public debt. As public debt increases, the amount of unnecessary interest servicing on that debt blossoms, expanding the profits of the moneyed elite. This progressively buoys the financial class and increases its control over the political economy. So entrenched is this artifice that people rarely question it. Essentially a long-term social security plan for the financial sector, this "bond funding" contrivance fosters pernicious malinvestment. Those financialists who get first access to the money use it to capture more money directly through further investment and speculation in financial assets. Consequently, too much money is confined to the speculative dimensions of the financial space. Speculation has produced a financial black hole where money enters but refuses to exit. The money might as well not exist with regard to the regular economy. Put another way, this money takes on characteristics antithetical to traditional savings and investment. These financialist accumulations are not savings that bolster the economy. Instead, they constitute a hidden excise upon those who operate in the real economy. They are not investments but malinvestments that further skew the proper balance between the real and financial sectors of the economy.

This ardent, but misguided chase of money actually increases the aggregate scarcity quotient. Too much effort is wasted in the pursuit of money. Effort is finite. If too much is used in financial speculation, less is dedicated to creating actual wealth. In times past, financiers would be preoccupied with how best to fund the nation's flaccid manufacturing sector. In the impuissance of the real sector, they

would see the demise of their own fortunes. Today, the financiers are absorbed in financing themselves; they are less concerned about the health of the real economy than were their predecessors. A negative cycle of immiserating affluence has been spawned. This is not wealth but the illusion of riches.

The greater the competition to possess money, the more likely people will see this strident competition as affirmation that money is the prime goal. Everyone wants to join the pursuit because no one wants to lose out. Such is the foible of human nature. The gravitational pull of mass behavior exerts significant influence over the individual. Most people succumb to the weight of the mass. Whether that mass lunges toward folly or profundity is immaterial. The notions that give rise to the herd tend to reinforce the unity of the herd until the second before the stampede plummets into the ravine. Wisdom comes at the last moment, but it comes too late to save most. At this point, nothing can halt the downward plunge.

In the end, money is but a representation. It is a map providing shortcuts from a known path to a known destination. That destination is wealth as defined by the quiet, peaceful enjoyment of items that lower the collective scarcity quotient, to the extent possible, given current levels of productive capacity. To be wise, we must calibrate how much time we spend obsessing over possession of the map since we know other ways to reach our objective. If we spend more time chasing the map than the time the map's shortcuts will save, then we expend ourselves foolishly. At some point, we must realize chasing the map prevents us from the journey the map was to facilitate. All of our activity will amount to waste: all expenditure without reward.

The pursuit of money is exhilarating and, to a significant degree, necessary. Money's liquidity lubricates the gears of the economy. However, when the mad pursuit turns from reasonableness toward addiction, we strap ourselves to eventual diminution. Initially, the money chase stirs a flurry of prosperity. This is just the rustling of

the several winds before they assemble to become a damaging storm.

Great Speculations! Expenditure without Reward

Below is an impressionistic overview of some of the great speculative debacles throughout history. This list is far from exhaustive but is representative. It provides a broad outline of characteristics endemic to financial crises. As such, it provides insight into the flaws inherent in our current age's entanglement with financialism. In every instance, crisis was preceded by a period of easy money, unsustainable asset prices, and high initial profit-making that whetted the appetites of overindulgent speculators. Excessive risk-taking and excessive borrowing based on unrealistic expectations of profit dominated the financial space. In short time, euphoria was erased by the steep decline in asset prices, panic deleveraging, selling of assets, and a protracted period of financial austerity and stagnation.

Spanish Empire: Windfall before the Downfall

The Spanish Empire was built largely primarily on vast colonial holdings of the New World. Spain's land grab stretched from the lower third of North America to the bottom of the South American continent. Between these boundaries were vast silver and gold deposits the Spanish would fiendishly mine. Silver mines in Mexico and Bolivia's famed Potosi mine, along with countless lesser sites, enabled Spain to pull the current equivalent of trillions of dollars of precious metals from the New World. This activity would impoverish both colony and metropolis.

By itself, the tidal influx of the costly metals did not distort the Spanish economy. All other things being equal, the influx would have just caused a proportionate rise in prices. However, things are never equal. There was a rise in general prices and a steeper rise in the prices of certain assets. This price rise, joined with the widespread

illusion that money was wealth, turned the Spaniards into saboteurs of their own economy. They abused silver to such an extent that they pauperized themselves. The common adage was, "Everything is dear in Spain except silver." Because the people mistook silver for economic wealth, they no longer bothered with the productive elements of the economy. Too many people fixated on putting their hands on money, which would allow them to buy what they wanted. The Spanish elite turned their backs on commerce and manufacturing to become a class of rentiers who tortured religious heretics for recreation. At first, everything seemed idyllic (except for the heretics). Money was easy and people bought what they wanted. It seemed like an end of scarcity. However, the money was too easy, and it served to dupe people into behavior that would prove injurious.

The goal became one of using money to make money directly instead of indirectly via the production of items adding to the aggregate real wealth of the nation. People with money speculated in real estate in Spain and in other nations. They speculated in government bonds backed by the silver and gold imports. As more silver came, productivity and commerce faded in importance because too many people chased after the precious metal. Inflation became endemic; a burgeoning supply of money was chasing a relatively static supply of goods. The poor and the merchant class were pulled down. The economy stagnated under the heavy weight of silver wrongfully employed. Returns on investment soon fell, as the economy stagnated.

Eventually much of the silver left Spain to pay for imported goods or to be invested in places where real returns on investment were better than Spain's. This outflow of silver from Spain to other nations did for those nations what the influx could not do for Spain. It helped them prosper. One of the beneficiaries of Spain's errant ways was the Netherlands, a former Spanish appendage. It was no incident of history that, as the Spanish Empire gave way, the commercially active Dutch Empire eclipsed it. For a time, the Dutch

became the most important western empire. Military prowess and exploration did not spur this ascendance. The Dutch sailed into prominence because of their commercial proficiency.

Tulips Anyone!

The Dutch also proved to be human and susceptible to speculative lure. With their small nation swiftly rivaling the status of their former Spanish masters, the Dutch felt flush with prosperity. People looked for ways to make more money and showcase the wealth achieved. Real estate and housing prices went on an upward tear. Strange as it may now sound, the status symbol during the first part of the 17th century became the tulip bulb. Only the rich had them. Possession of a bulb was tantamount to possession of money. If money were a sign of wealth, the tulip was the sign of being moneyed. Given the foibles of human character, ownership of this sign of a sign became more important than possession of more durable, practical goods.

The bulb became such a transcendental item that working class people wanted to invest in growing bulbs for onward sale to the affluent. This way, the average man could make his fortune and later buy a tulip bulb for himself. "At that time, the average yearly income in Amsterdam was 150 florins, but a single coveted bulb easily sold for over six times that amount. Taverns became stock markets for trading and the public piled in. Unregulated tulip futures were created to satisfy demand."[3] People of all social stations sold homes, farms, businesses, and other possessions to invest in bulbs. For a while, the demand for bulbs profited investors. At one juncture, prices multiplied twentyfold within the span of one month.

However, what goes boom also goes bust. "Out of nowhere, in February of 1637, the tulip market suddenly crashed and, the price of some of the most exotic bulbs collapsed in six weeks from the equivalent of $75,000 to $1."[4] Just as people too optimistically invested all their money when prices climbed, the same people

severely panicked when prices collapsed. One extreme swing of the pendulum begat an opposite, equally extreme swing.

The speculation in tulip bulbs demonstrated how crazed normally reasonable people could become when infected by the desire for instant riches. Beyond their evanescent beauty, tulips had no significant economic utility. While they might be the floral muses of the painter and poet, tulips carried no inherently greater economic weight than any other flower, or any weed for that matter. Subjective whimsy drove this craze up, and then brought it crashing down. Economic fundamentals played no role in it. Because the investment was so far divorced from underlying economic reality, the demand for bulbs had to exhaust itself quickly. There were only so many rich people, and each of them had a finite demand for the bulbs. Moreover, realizing they were spending too much for a perishable item, even the rich had to reevaluate the wisdom of this faddish expenditure. Simply put, the rich stopped buying. Hapless investors tried to unload their bulbs quickly. With everyone offloading the bulbs at the same time, the price fell precipitously. Those investors who came into the game too late or stayed too long were ruined.

The Long is the Short of it

The Great Depression of 1929 is the seminal economic event for most of us. Every literate adult has seen some reference to this debacle. It holds a special place in the memory of America and of most economists. Yet there is another depression that offers other important and perhaps even more pertinent lessons for us. Unfortunately, it seems that modern man thinks himself much too clever and thus has limited capacity to learn from his mistakes. He apparently can remember only one depression at a time. To remember other errors reminds man that he is not as wise a financial being as he portrays himself. By remembering only one downturn, man can characterize it as an anomaly. If he

acknowledges more, he has to admit he is constitutionally susceptible to the error of excess.

If we were more capable of learning instead of glossing over the errors into which greed leads us, we would recall what ultimately became known as the Long Depression. When it occurred, it was known by a more familiar name. It was the first downturn to bear the frightening epithet, "the Great Depression."

The Long Depression is an apt name for this decline that undercut the economies of Europe and the United States during much of the final quarter of the 19th century. Some economists claim the depression began in 1873, lasting until 1896 in some parts of Europe. Not every year during this period was one of decline. There were intermittent spurts of growth, but these were punctuated by more durable, steeper periods of stagnation or contraction that so quickly exterminated the buds of growth that they seemed illusory. Taking America and Europe as one unit, net aggregate price deflation and suppressed economic activity lasted over 20 years. A whole generation was scarred by the malign phenomenon. In Europe, cynical and populist politicians cast blame on foreign banks and Jews for the wreckage, setting the stage for a more terrible anti-Semitism one depression later. As the future unfolded, foreign banks would survive this defamation with less injury than the Jews would suffer.

The depression was a child of financial exuberance. A period of financial expansion had spread across the face of Europe during the 1860s. This was the famous "founders' period" when many of the renowned buildings in European capitals were erected. While these efforts were made for posterity, other efforts were launched for prosperity. Those made toward the former succeeded and still stand; those made toward the latter tilted, then collapsed. A construction boom infected most European capitals, particularly Berlin, Paris, and Vienna. This being a time of easy money, mortgages were easily obtained. Thus, people obtained them. Speculation in real estate increased with the rise in home and real estate prices. People

borrowed funds to buy land and build homes in expectation of a perpetually flush market. In America, a similar misstep occurred with railroad stocks. Investment in these stocks transcended reason and became rabid. Greed eclipsed sound judgment.[5]

Investment mutated into speculation. The amounts invested made for a crowded field of investors chasing finite, soon reducing yields. Investment became estranged from economic fundamentals. Central and Eastern European nations looked for vast returns on wheat harvests and other outputs to fuel their spending frenzy. However, the emerging economic giant of the western Atlantic, the United States, undercut their expectations. America produced agricultural goods, including wheat, and some finished goods more cheaply and abundantly than the European nations. The advance in international commerce and shipping allowed these items to be transported in bulk and inexpensively. Just as Chinese goods now flood America, inexpensive American goods flooded Europe. Europeans labeled this phenomenon, the "American Commercial Invasion."

By 1871, Britain started purchasing abundant wheat and other products from America. This put the economies of continental Europe in the lurch. Britain's sudden change in trade patterns undermined the revenue intake of those continental economies. Contraction took the place of assumed growth. Speculation in real estate suddenly did not look smart. Having borrowed too much, European land speculators were not making any money and thus could not repay the banks. Continental banks swooned under the weight of their enlarging portfolios of nonperforming loans. This caused British and American banks to grow skittish. With banks suspicious of each other, they stopped lending to each other. Lending rates soared and credit dried. People started to avoid debt, as if running from the plague. This precipitated a drop in asset prices, further fueling panic. Across the board, consumer demand constricted due to the mounting economic uncertainty. Economies

stagnated as people decided to hold to what they had and not spend or invest unless necessary.

By1873, the financial crisis migrated to America. Railroad stocks led the decline. Railroad investment had outpaced the reality of economic fundamentals. Railroad companies and banks concocted obtuse financial bonds to entice investment into railroad construction. The bonds were that era's equivalent of MBSs. These bonds promised high fixed returns, but they were secured by thin air if default occurred. Some banks had invested handsomely in the railroad bonds. Everyone took notice when Chicago-based financier Jay Cooke, heavily invested in the doomed Northern Pacific Railroad, announced he could not repay his many debts. Panic spread like prairie fire. The stock market crashed. Hundreds of banks fell into the sink.

This panic resulted in over five years of uninterrupted economic decline, the longest, if not the steepest, such period in American history. At the end of it, the depression resulted in a higher concentration of economic power and wealth in the hands of a few. The large firms that held ample capital reserves of their own, such as the Carnegie and Rockefeller empires, continued their operations relatively unscathed. Due to the ensuing evaporation of commercial credit, these large firms purchased cash-strapped, indebted firms at distress prices. The ranks of the unemployed burgeoned. Civil War veterans became itinerant vagabonds. The panic produced the most violent labor protests America has experienced.

During this period, the relatively enlightened Lincolnian racial policy of Reconstruction was abrogated. White racist backlash teamed with cynical politics and abysmal economic conditions to bring that progressive social experiment to an ignoble, hasty end. A serf-like status was branded into the lives of the former bondsmen, reducing them to an economic condition still washed by the drudgery of slavery with little ventilation from the air of freedom. A system of extreme segregation was instituted with due legal

approbation. The economic crash did not cause the racist counterblow; however, the crash gave strength to racism by pinning an economic purpose to it. If you want to put ethnic groups at each other's throat, drain an economy of its vitality. Hate will join poverty in filling the space formerly occupied by prosperity.

One Morgan Can Make a Difference

In October 1907, America experienced a financial meltdown known as the "Banker's Panic." The years immediately preceding 1907 were halcyon. The Long Depression had ended and the global economy was making up lost ground. However, an economic slowdown started toward the end of 1906. Most players did not see the warning signs; they were much too busy conniving how to speculate themselves into affluence. Banks and large trusts, the prime vehicles for speculative investment, were more interlocked than most people understood. The scent of speculation flittered through the air, intoxicating many people.

Suspecting other investors of driving down the price of United Copper Company shares, the two principals of that company devised a harebrained scheme to inflate the stock's price while acquiring the shares of low-balling, bearish investors. Several important brokerage firms and banks were the principal vehicles of this amateurish plot. When the plan failed, the scheme rolled over its two instigators with a vengeance. They spent a lot of money and had nothing to show for it. Locked in massive debt, they had no way to repay it. A chain reaction occurred. The brokerage firms and other speculators who had backed the failed duo also could not repay their loans. This caused a great herd of investors to realize they were living on too much borrowed time. The underlying economy was getting softer, and anyone carrying heavy debt risked sinking to the bottom. There was a run on those banks identified with the failed takeover bid. Soon the run shook banks associated with those banks. The fever continued to spread quickly. Worried depositors pulled their money

out of the affected banks. This only hastened the meltdown. It was like putting hot fire to warm butter.

Once unleashed, the panic spread of its own accord. It eventually extended to banks and trusts having no connection to the banks that suborned the failed corporate takeover. Shocked by the frenzy in the financial sector, the stock market quaked. At one point, the market fell to approximately 50 percent of its value the year before. The slide would have continued but for the intervention of J.P. Morgan. Morgan was the most respected financier of his time. Morgan was the rampart preventing the panic from further damaging the entire system. Buoyed by a secret loan from the Treasury Department, Morgan functioned like a one man central bank. In addition to deploying the surreptitious loan, Morgan proffered a substantial chunk of his own money and persuaded solvent financial houses to do the same.

This injection of money into the troubled banks slowed the downward rush.[6] After a few weeks, the panic subsided. How far the banks and the markets would have tumbled but for Morgan's prudent intervention is undeterminable. That they would have declined further is indisputable, as there was no other mortal power to contain the slide. At that time, America functioned without a central bank. Bank deposit insurance was still one generation and a depression away. In the aftermath of this scare, opinion began to coalesce around the propriety of establishing a central bank like European nations had. Six years later, the Federal Reserve System was legislated into existence. By delegating the power to issue currency to an essentially private bank system, the Federal Reserve Act ensured the power of the financial class, setting the groundwork for modern financialism.

The Greatest Depression Bar None

The crash that started in 1929 has no rival. It is the standard by which all subsequent economic upheavals will be judged. Something

as severe and broad as the Great Depression has myriad causes that cannot be fully explained in a 1,000 pages let alone these few. Notwithstanding this caveat, we will summarize a few important points.

The world that emerged from World War I was not only scarred and fermenting with unrequited nationalism of various stripes. That world also suffered profound economic imbalances. The Treaty of Versailles yielded a malicious financial legacy. By placing a heavy war reparations bill on Germany, the treaty doomed the Weimar Republic. Weimar became a cathedral of hyperinflation and crackpot ideologies on how to cure the torn society and wrecked economy. Given German social propensities, extremists on the right would have the upper hand. The National Socialists flourished in the turmoil like bacteria in a Petri dish. Their leader would rise from the obscurity of prison to plunge the world into an unprecedented encounter with the macabre. In one aspect, the rise of Hitler has little to do with the coming of the Great Depression. In another aspect, the two cannot be separated. But for the punitive reparations and the subsequent depression, Hitler's ascension would have been improbable. Had those in control taken better care of the global economy, the second global war might not have occurred. What happens in the economy rarely remains confined to the economy. It ramifies across the spectrum of human interaction. Not only is war the continuation of politics by other means, it is often the offspring of misguided economic policy.

Draconian treatment of Germany after the war was the grossest manifestation of a great flaw coming out of World War I. No one had envisioned the death and destruction brought by the war. Too much had been spent with too little gained. Victor appeared indistinguishable from vanquished. All were too hurt to feel magnanimity toward the former enemy. Lean victors sought to extract more than a pound of flesh from wizened losers. Instead of realizing that prosperity resided in rebuilding all economies, winners sought a quick return to normalcy at the expense of those

who sued for peace. They would demand from the losing side money that all knew the vanquished could not provide. Short of a sadistic return to war, this was the harshest blow that could have been dealt the German nation.

Having come into the battle late, America emerged from this fight unscathed. It was the world's fastest growing economy and its largest creditor. Sadly, its riches and enormous role in the global economy eclipsed its ability to play that role. America's comportment was inadequate for the times. It had more power to lead the world than any other nation out of the damage caused by war. Unfortunately, America sought to return quickly to business as usual. It wanted to be repaid the vast loans ally and foe had borrowed. Dismissive of the possibility of some relief for the ravaged European debtors, President Calvin Coolidge icily asserted, "They hired the money, didn't they?" That said it all. No one forced them to expend the borrowed money in an orgy of annihilation. These nations all thought they were more refined than America. Now that it was time to repay, let them repay. That was the abrasive credo of American political leaders after the internationalist President Wilson exited the scene. In the end, the whole world would pay and dearly so.

America quickly went back to business. Britain and France trundled along as best they could, dunning Germany at every opportunity. Carrying its heavy debt burden, Germany had but one option. It printed money in shameless amounts. To do so during the reign of the gold standard courted disaster of another type. The nation soon fell into the riptides of gargantuan inflation. Its money became worthless confetti. So central to the rest of the continent, Germany's exhausted economy began to implode. This would weaken the other European economies. Still, the greatest fall would be reserved for the economy that seemed to have climbed the highest while behaving coldly indifferent to the plight of torn friend and foe. Some might cite this as poetic justice. Perhaps. It clearly

represented a case of free-market orthodoxy's inability to cure the financial maladies it helped produce.

The decade of the 1920s was one of growth in America. Business boomed. Everyone saw nothing but prosperity on the horizon. They blinded themselves to all else, including warning signs that things were going amiss. When it comes to money and fortune, the eye never sees quite as far and as clearly as we believe it does. It primarily deludes itself with pretty mirages although ominous realities lurk nearby. The 1920s economic boom had soft spots. Production levels raced far ahead of wages. Yet, investment in production kept soaring. Soon production perilously exceeded domestic consumption. Because Europe was stagnant, it lacked the capacity to consume the vast differential between American production and consumption.

Given the widening gap between production, wages, and aggregate demand, a slowdown was inevitable. Something had to give. However, both experienced and novice investors failed to see the wall let alone the cautionary handwriting on it. People poured their money into investments, expecting higher returns from companies whose profits had already peaked and were heading downward. These companies eventually had to reduce production and lay off workers as inventories grew to unmanageable levels and sales flattened because of weak demand. Stock prices escalated far above market fundamentals. Worse, many people borrowed heavily to invest in stocks of the companies headed for a fall; these companies could not pay anticipated dividends; their profits had shriveled. Recourse to margin loans was extravagant. Too many brokerage firms and banks borrowed from each other to extend loans to investors. In September 1929, the market felt its first tremor. By October, the quake came.

The market crashed hard. There was a concomitant run on banks. Over 650 banks failed that year, and by 1933, the number of existing banks had nearly halved.[7] Many people lost their life savings.

Still, many anchored themselves to the errant notion that this was one of those temporary downturns that quickly came and went. In the first quarter of 1930, the markets seemed to mend. By April, the market had returned to the level it reached the previous year. Many breathed a sigh of relief, thinking the worst had passed. What had passed was merely prologue. The bottom soon fell out. To his credit, President Hoover attempted to persuade business to maintain production and wages at current levels. He urged states to spend; he even pursued a miniscule federal public works program. His slight attempts were wholly inadequate. He was like the deranged captain using a teaspoon to bail water from his sinking vessel.

Despite the growing calamity, Hoover remained wedded to a balanced budget and the gold standard. This precluded strong government intervention in the economy to compensate for diminished private-sector demand. The nation fell into a deflationary swoon. Production fell from lack of demand. With production down, companies sent workers home. This further depressed demand, precipitating more layoffs. Afraid of the banks and of investment, the few people with money hoarded it. They neither spent more nor invested more than necessary. Hoarding effectively removed a significant chunk of money from the system. This further spurred deflation. Prices fell dramatically. The Federal Reserve compounded matters by constricting the money supply when it raised interest rates.

Making matters worse, America passed the protectionist Smoot Hawley Act, doubling the import tariff rates of the pre-depression years. Other nations responded by enacting their own protectionist measures. Trade barriers suppressed economic activity at a time when activity was needed. America now sprinted toward depression. More by desperate accident than by malicious design, it pulled much of the world along with it. As if man had not caused himself enough damage, nature added to the debacle. In 1930, severe drought and dust storms visited the American farm belt, causing a breakdown in

agricultural activity. The fertile American heartland became a bowl of life-choking dust.

By 1932, America was firmly gripped by depression. Compared to1929, industrial production had been cut by half. America's foreign trade shrank by more than half. Wholesale prices fell by a third, and unemployment exceeded 30 percent.[8] Despite the shrinking number of banks, home foreclosures mounted and the run on banks remained frenetic. Under these conditions, Franklin Roosevelt was elected president.

Where Hoover refused to depart from the orthodoxy of a balanced budget and the gold standard, Roosevelt veered toward rigorous and massive government programs. To employ the jobless and keep homes from being foreclosed, his administration would expend more than it collected in taxes. He moved to stabilize the banking system and prices. He put the deflationary gold standard on furlough for the duration of the crisis. His New Deal stopped the depression from worsening, progressively improving economic conditions during the 1930s. Although demonized by the largely conservative business community, Roosevelt's reforms salvaged American capitalism. His greatest economic policy error occurred when he tried to curry the favor of the business community in 1937. It seemed that the worst of the Depression was over. As a sop to business, Roosevelt shrank public spending, thus angling toward a balanced budget. The economy sagged as a result. He would not make that same mistake twice. The nation finally emerged from the Depression when manufacturing surged on the production of war materiel in anticipation of conflict with the lunatic in Berlin.

From this experience, America established social security, government programs to help mortgagors, and the Glass-Steagall Act, a major legislative innovation prohibiting banks from simultaneously engaging in traditional commercial lending and speculative proprietary trading. More importantly, the American government learned lessons about the fragile equilibrium of

markets. Government intervention in times of financial emergency became part of the political culture. Much of the technical know-how to prevent utter collapse was learned during this period. The Glass-Steagall Act would usher in nearly 60 years of financial stability until its repeal in the 1990s.

Scandinavians Fix Their Mess Quickly

In 1990, Scandinavian nations experienced a financial crisis. The crisis came slowly. In Sweden, inflation constituted a chronic problem since the 1970s due to an enlarging disparity between productivity and labor wages. Rising labor costs significantly crippled the economy. Because the economy was export driven, high labor costs rendered Swedish goods less competitive internationally. Revenue from export mainstays, such as shipbuilding and wood products, declined. The composition of the labor market began to change due to the decline in the leading export industries. More Swedes went into service and government jobs. As more people entered these sectors, the incentive to keep wages low to preserve export competitiveness further eroded. In time, wage-induced inflation compelled devaluation of the krona. Starting in 1980, the government also instituted a series of financial reforms that liberalized the traditionally restrictive domestic credit market.

Liberalization of the credit market spurred unprecedented borrowing by firms and households. Banks encouraged this because they engaged in interest rate arbitrage. They borrowed money at relatively cheap international rates, while lending domestically at higher rates. With appetites whetted to make huge profits from the interest rate differential, banks put aside sound judgment and loaned too easily, too often. A real estate bubble ensued, sparking the construction of overpriced houses and commercial buildings. When Germany reunified in 1990, the bubble burst.

Much of Swedish borrowing had been from German banks. Reunification drove up prices in Germany, including interest rates.

Once German rates climbed, Sweden's followed suit. Because its rates were already high prior to German reunification, Sweden's now became prohibitive for many borrowers. Credit shriveled and the real estate market crumbled, undercutting the nation's largest banks, investors, and the general economy in the process. Between 1990 and 1995, residential real estate prices fell nearly 25 percent and commercial property declined an even higher 40 percent. Nonperforming loans reached 12 percent of GDP by 1993.[9]

That a real estate bubble caused Sweden's downturn is not surprising. What makes Sweden's crisis noteworthy is the swift, decisive manner in which the nation resolved the difficulty. When three of the nation's largest banks started sinking because they held insufficient capital, government moved quickly to take over the banks or guarantee the firms' liabilities. Eventually the government established asset management companies (AMCs) for the troubled banks. The well-performing assets remained with the banks. The troubled assets were transferred to the AMCs. Government adequately capitalized the AMCs and gave them broad autonomy for winding up the troubled assets. This wise policy, coupled with the overall global economic expansion, enabled Sweden to escape crisis more quickly and at lower costs than history would have forecasted.[10]

Japan's Lost Decade and More

Coming out of World War II, Japan was a prostrate, devastated nation, its economy reduced to shambles. However, the vast American military presence on the island nation provided needed economic spark. The high volume of shipments and containers supplying the American military were returned empty to America. This provided inspiration for the beginning of Japanese export manufacturing. After a time, the containers no longer returned to America empty. First, crudely manufactured goods filled them. Fifty years ago, something marked "made in Japan" was cause for derision. However, the Japanese played a masterful game of

economic catch-up. By the 1980s, there was not much to snicker at concerning Japan. It had rejoined the ranks of the elite nations. Its economy rose to become the world's second largest. With the state playing a strong role in the Japanese economy, those disenchanted with America hailed Japan's success as an alternative model to American-style capitalism. Yet, just as the garland was placed on his head, this Olympian tumbled from the podium into the financial mire.

During the1980s, real estate and stock prices tripled in Japan. This was more than an increase in prices. It was a dizzying ride on a skyrocket. Yet, Japan could not sustain the steep climb. With real estate and stock prices moving so rapidly, people started pouring money, their own and what they had borrowed, into these sectors. After a time, prices of real estate and stock lost connection with underlying economic fundamentals. No society appeared immune and now the speculative bubble had come to Japan. This massive ballooning of poor investment in financial and real estate speculation redirected investment from the productive sector that had been the cornerstone of post-war national prosperity. Inflationary pressure mounted. In 1989, the Central Bank increased interest rates to stem inflation. This decision, by stemming borrowing and speculation in the real estate and stock markets, pierced the speculative balloon.

With asset prices falling like anvils dropped from a skyscraper, the expected course would have been for banks to shut their lending windows. After all, falling asset prices would move many loans from promising to nonperforming. Although suddenly looking at portfolios littered with bad loans, banks did not quickly seal their lending troughs. Government policy toward the banking sector apparently was to encourage the firms to go into denial. In effect, monetary policy ignored the downturn to the extent possible. To keep the bad loans from publicly exploding, banks engaged in masochistic lending. They continued lending, albeit at lower levels, to failing businesses in order to veil that prior loans had turned sour. By extending more funds to fragile companies, banks tried to protect

their public reputation at the expense of ensuring their liquidity and solvency. They engaged in the strange practice of trying to emerge from the pit by digging deeper into it.

Government policy was sluggish and disoriented. Government waited years before doing anything meaningful to squash this self-immolation by the banks. Throughout much of the decade, government would tinker with the economy through piecemeal stimulus packages. These packages were too small, ill-timed, and misdirected to do more than increase the national debt. Moreover, it was a conceptual blunder to attempt stimulus so early before curing financial sector malaise.

With the fall in asset prices, the public became risk adverse. People wanted to hold more liquidity than normal. Japan's already high savings rate escalated to an unhealthy point. Moreover, profitable firms were no longer borrowing. They decided to use profits to pay down debt instead of borrowing to expand business operations. The higher savings rate and the reduced borrowing by profitable firms further slowed the economy. Deflation set in. The yen appreciated, making exports less competitive. Because people saved at higher levels, domestic demand and consumption remained stunted. This intensified deflation. Government raised the consumption tax in 1997, thus weakening already slack consumer demand and causing deflation to worsen.

Because the domestic banks maintained bad loans on their books, Japan postponed its day of financial reckoning. The delay made things more costly. By 1998, nonperforming loans reached 20 to 25 percent of GDP. Not until 1999, when the government established the Resolution and Collection Company, did Japan begin to address the problem of bad loans and deceptive bank balance sheets. This occasioned a wrenching period of public disclosure of the fragile state of the financial sector. Many banks finally closed. Consolidations merged other banks. The number of major banks shrank to less than a handful.

Because of a decade of temporizing policies, government allowed deflation to become institutionalized. The passage of time, coupled with government inaction, ingrained crisis behavior into the fabric of the political economy. The public's initial response to the 1990 crisis was to save money to pay down debt. Due to the protracted financial uncertainty, this response was adapted as people's long-term behavioral pattern. However, the elevated savings levels did injury, given the deflationary context of the economy at that time. Even a subsequent decrease in interest rates to near zero could not rescue Japan from deflation's grip during this balance sheet recession. The 2008 crisis would erase much of the frail progress made during the first years of the decade. Japan has been in its version of a long depression.

In hindsight, Japanese policy makers committed major errors during this protracted national slump. They waited too late to cleanse the financial sector of its litter by allowing nonperforming loans to remain on bank balance sheets too long. The Japanese should have moved quickly to write down the turbid loans. By not doing this housecleaning, the financial system remained burdened with weak banks holding bad debts. However, a nation cannot resolve a debt crisis by ignoring bad debt and insolvent lenders.

Second, Japan erred by deploying inadequate fiscal stimulus prior to remedying the financial distemper. However, financial distortions were at the heart of the crisis. Government should have pursued financial-sector reform and adequate fiscal stimulus in a coordinated fashion. This means fiscal stimulus should have followed closely behind and have been linked to the initiation of major financial reform. However, Japan committed itself to a scattered sequencing. Making matters worse, the gap between the unsystematic uses of monetary and fiscal policy measures was in terms of years, not weeks or months. Finally, attempts at fiscal stimulus were all too little; a few were too late because they were attempted too long after financial reform, and some were too early

because they were attempted long before financial reform was initiated.

In the end, the Japanese situation serves as a startling caution against dithering when confronted by crisis. When the financial house falls out of order, prudence requires fast action to restore stability and soundness. The longer the wait, the longer it will take to wean the system from the pathos that become institutionalized after the crisis has become institutionalized.

The Great American Debt Default Circus

History will record the year 2011 as among America's least auspicious. Historians will attribute it to a contrived political crisis regarding legislation to raise the artificial ceiling on government debt. Intertwined in this debate were petty arguments and recriminations between the two mainstream political parties regarding budget cuts. The mainstream media portrayed the bickering between Democrats and Republicans as the substantial debate of the year. It was portrayed as the full and complete airing of all reasonable alternative views of government and its financing. However, what seemed apparent was hardly accurate. The great debate was so grossly one-sided that it was not a debate at all. It was two criminals arguing whether to bury the victim in the backyard or toss the corpse in the river. Both Democrats and Republicans claimed the debt ceiling should be lifted to avert financial chaos. However, lifting the ceiling had to be predicated on stark budgets cuts, as a harsh curative against government fiscal laxity. Neither side seemed troubled by the merciless consequence of massive budget reduction during quasi-recessionary times. Despite the theatrical hectoring between White House Democrats and Congressional Republicans on this most fundamental issue, they were in accord; lamentably, it was on the side of ignorance.

These politicians had glossed over the last 100 years of economic history. If their entire economic knowledge were placed in

a box, one could look into the box and consider it empty. Among those considered politically savvy, the question was not whether there would be an agreement on the idea of budget cuts. The cuts were foregone. Debate centered on the exact severity and placement of the cuts. Both Democrats and Republicans agreed to massive cuts; they just disagreed over where precisely to make the incision. Democrats wanted to cut at mid-calf. Republicans wanted to sever government somewhere above the knee.

This false fanfare concealed the absence of a fundamental probing into the nature of government funding. How can the American government find itself in such a debt circumstance when it possesses the sovereign power to issue the very currency it borrows? Upon the true answer to this question rests the fairness of much of its financial system and of government fiscal policy.

The American monetary system was willfully constructed to create unnecessary government debt. The American constitution empowers Congress to issue currency. At the behest of the world's most powerful financial houses, that same Congress did an extraordinary thing nearly a century ago. It delegated the issuance of money to what is essentially a semi-private banking group, the 12 Federal Reserve banks. (The American Federal Reserve is the nation's central bank. It is a consortium of 12 private banks with nominal oversight by a government entity, the Board of Governors.)

Since 1913, the U.S. government has been forced to borrow money from the Federal Reserve System. Imagine a town with an ordinance prohibiting bakers from directly consuming the bread they baked. To acquire bread, a baker has to purchase from the retail grocer the very bread the banker had sold wholesale. One would be right to find the rule intensely curious. Unless written by and for the grocer, the law makes no sense. It is more logical to allow the baker to freely consume what he wants from his own ovens prior to selling it to another party. The same goes for government and the dollar.

Take an economy with an existing wealth of $200 and a government budget in perfect balance between revenues and expenses. However, government wants an additional $100 in road construction. In the current set up, government would have to borrow the money by selling $100 in interest-bearing bonds, usually to a private investor, often a private bank that holds shares in one of the 12 Federal Reserve banks. With the borrowed money, government pays the contractor and the road is built. The nation's genuine wealth has expanded to $300, but at the price of increasing debt by the amount of the bond plus interest ($100+). Stated another way, the private bank has been enriched because it now holds the bond, which will pay out more than the bank paid for it.

Institutionalized Money Power has exploited this mechanism to enrich itself for decades. It is cardinal to the power the financial sector exercises over government and the political system. This constitutes nothing if not a government welfare program for the financial community. This subtle but massive government subsidy, this equivalent of social security for the financial sector, is a pillar upon which financialism has been constructed.

Moreover, this is an obtuse way to structure a relatively simple transaction; it adds an unnecessary layer of exchange and creates unwarranted debt. The most logical way also costs less. Treasury simply can print the money, paying the contractor directly. In this case, national wealth expands similarly. However, government debt does not increase. If Treasury printed money, the growth in public debt would be suppressed and eventually reversed. This brings us to another question. Where did the private investor get the money to buy the bonds? Ultimately, the money comes from the Federal Reserve. Where does the Federal Reserve, or for that matter any central bank, get its money? In the fiat system, the Federal Reserve simply makes money as it wishes. Money has not been pegged to gold since 1971. Today, when the Fed wants money, the Fed issues it.

The basis for value in paper money is founded on the government's decree that the currency is legal tender. People accept paper currency as exclusive legal tender to the extent they have confidence in the issuing government, or to the extent they perceive government as having the power to effectively enforce its sovereign will within the jurisdiction covered by its writ. Money is an abstraction. It has value because Washington says it has. Washington also promises to give the holder of a federal reserve note something of value should the holder tender the note to government. That something the government promises to give is quite an extraordinary thing: in most instances, it is another such note! As such, American fiat money is an elaborate circularity. A marvelous casuistry is its essence. It is but sublime nothingness, like the air. We need it and it is everywhere, but the essence of its value is unseen and made of nothing the human hand can hold. Money is an idea and thus its utility and practical value change with how we reshape our financial thinking.

Continuing this probe into the mechanics of government debt, the next question focuses on the nature of government bonds. Of what value is a government bond? A bond is but a government promise to pay back money borrowed, plus interest. Since the promise underlying money is illusory, the one underlying the bond must be similarly ethereal. However, bond issuance presents an additional quandary. Since money creation has been delegated to the Federal Reserve banking system, government can only procure money through taxation or borrowing. If taxation were a sufficient source of income, government would not borrow in the first instance. Thus, once it has borrowed, it must borrow again. It must issue bonds in ever increasing amounts in order to cover the principal debt and escalating interest on prior bond obligations. The dynamics of bond issuance necessitates that each subsequent round will be for a larger amount than the preceding tranche covering a sufficiently large identical time span. Bond debt is intrinsically a ballooning mechanism. In no small part, this dynamic has caused the American debt to spiral as it has.

This takes us to another question. If Treasury can issue a bond, which is a more complicated instrument, why not simply issue the currency? As illustrated in the example regarding the $100 road construction, the issuance of a bond creates government debt. This produces a concatenation distorting the economy to the benefit of the great financial houses. Government becomes the economy's largest debtor because of this structure compelling it to borrow its own money. This has widespread repercussions. Government never defaults on its bonds. Consequently, this enormous cushion of government debt guarantees large bondholders a definite stream of sure profits. Because of this artifice, the financial sector is more profitable and more powerful than it otherwise would be. The financial system has used this artificial advantage to create other advantages for itself that often disadvantage the rest of the economy. This is the essence of financialism.

Because government debt continues to expand, tax rates are higher than warranted. Because government debt assures the large financial houses of this revenue stream, those financial houses have the luxury of charging slightly higher interest rates than they otherwise would on retail lending to consumers and small business. Even slightly increased rates mean a greater chance of borrower default, particularly during hard times. Consequently, during good times, the large banks profit handsomely. In recessionary periods, the well-capitalized financial houses do better still as they take in the high interest payments or foreclose mortgaged property and assets on which the hapless debtor cannot pay.

Moreover, the mechanics of government debt issuances opens the door to a cozy relationship between Money Power and government lawmakers. Government debt induces lawmakers to believe that government is beholden to the financial houses for its continued operation. While false, this perception is operative. Thus, the financial houses hold significant, if unwarranted, sway over government. That Money Power also contributes heavily to political campaigns of pliant officeholders does not help matters.

Consequently, the financial sector is always well positioned to make sure the actions emanating from Washington do little damage to the ways of Wall Street.

Against this backdrop, the debt-ceiling debate was a farce, a storm without clouds and rain, nothing but hot air blowing over cold ice. To overcome the problem in the short run, there were two easy options that would obviate the need for massive budget cuts. In one option, Treasury could have issued and sold at par non-interest bearing bonds redeemable by like bonds or cash at the discretion of the Treasury. Federal Reserve member banks and bond market makers would have bought the bonds at par value, reselling them to the Federal Reserve. Because a non-interest bearing bond is tantamount to money, this would have been an elaborate money swap allowing government to pay existing debt without increasing it. Alternatively, as an economist had suggested, Treasury still maintained power over coinage. It could signal its intention to deposit billions of dollars worth of coins in its account at the Federal Reserve. The Fed would have to credit Treasury's account for the total dollar amount of the coinage, and then Treasury could pay government debt in more manageable dollars. Either of these alternatives would have circumvented the debt ceiling; both of them also would have exposed government debt for the contrivance it is, unmasking that the current financial structure imposes a hidden surcharge on the economy for the benefit of the financier class. Because of the changes they augured, both approaches went largely ignored by mainstream politicians and media.

Several general observations can be made from this situation. In a fractional reserve/fiat money system not constructed for the enjoyment of the financial sector, creation of money has a hybrid quality. It constitutes a mechanism for private debt creation in one instance. This occurs when banks lend money to private borrowers. In other instances, money serves as a governmental instrument of value allocation within the national economy. This is independent of the creation of any debt and occurs when government issues money

to pay its expenses. Under the current financial system, however, the creation of new money is predominantly the creation of interest-bearing debt. The total amount of this future debt is necessarily more than the amount of money created.

Under the current system, when government needs funds to finance an expense exceeding tax revenues, government must borrow funds by issuing a debt instrument. Every dollar spent above tax receipts is a dollar whose creation is accompanied by the creation of a debt via government bond sales. The other way in which money is added to the system takes place when private banks, because of our fractional reserve system, simply create money by crediting the account of a borrower. The bank electronically credits money to that account upon approving a loan to said borrower. Again, the repayment of that loan will be for an amount exceeding the money created by the loan.

Why does a private bank enter such an arrangement? The loan, that is the creation of new money by the bank, is based on the belief that the underlying economy and the borrower are adequately sound. The bank believes the particular endeavor undertaken by the borrower will afford sufficient funds for him to repay both principal and interest thereon. Conservative thinkers extol this private creation of money, never calling it inflationary. Yet those same thinkers deride the infernal "printing of money" that threatens hyperinflation whenever government borrows in a like manner. There is little difference between the mechanics of the creation of money for government deficit expenditure and those for private borrowing. The cries against printing money for government deficit spending are crocodile tears. The fierce opposition to government spending has little to do with objective economics. It reveals a political bias against government as an active economic agent. This stance smacks more of a secular demonology than of rationality.

The only major way that money is created without adding to the debt is seen when the Federal Reserve purchases bonds previously

bought by private banks and other financial institutions. Yet, even in this instance, a debt instrument underlies the transaction.

Because it is created based on a debt obligation, the creation of new money generally is the creation of money with a real value inferior to its nominal one. The non-bank first recipient of that money, be it government or private borrower, will owe more than the face value of the currency received. Under the current system, the creation of money is like the purchase of a new car. The moment the car departs the showroom, its value falls sharply below its purchase price. Too much of the new money entering the economy has this negative value. Because the costs await in the future, the negative value of the money is partially obscured. Most people do not understand the ramifications of this fact until well into the midst of payment on installment debt or when a balloon debt approaches maturity. Then they see it for all it will take from them. Instead of the money enriching the person or entity, the money borrowed increases that person's scarcity quotient. Some repay by sacrificing other present expenditures and by forever foreswearing the winepress of debt. For every abstemious person, there are two who repay the original loan by acquiring more debt, thus leaping from the old treadmill onto a larger, swifter one.

The seismic fault in the current system is not one of printing too much money, provided the money is linked to the payment for, production of, or investment in items of tangible wealth. The flaw integral to the system is that it creates too much debt when it creates money. The large debt causes people to seek progressively higher incomes from the money they borrowed in order to satisfy the debt. Eventually this leads to excessive risk-taking by too many debtors. Avenues for such high stakes risk-taking are finite in the productive economy. Too much attention and desperate money diverts into the channels of speculation in financial paper that have no real ties to the production of tangible wealth. In this situation, money is being added to the economy at a heavy clip. Debt is being added at an even faster rate. Nominal asset values climb at a rate somewhere between

the range of money growth and the growth in debt. Real economic growth takes place, but its increase is merely a fraction of those of money and debt. The one cannot grow as fast as the other two simply because it takes longer and requires more labor and more tangible resources to manufacture a car, make a shirt, or grow a melon than it does to print money or a debt instrument.

There is a connection between aggregate debt, aggregate interest payments, average interest rates and real GDP growth. If too high in comparison to nominal GDP growth, the growth in aggregate interest payments will quash real GDP growth. The nation will experience growth but in a way that pauperizes those who carry significant debt. This will enrich the financial institutions that take in more interest money than they incur as an obligation. However, this situation means an ever increasing debt burden for the typical borrower. Yet, every private actor's ability to carry debt is finite. At some point, the borrower becomes saturated with debt and cannot absorb anymore. When enough borrowers reach this point, a financial downfall begins.

If you are a borrower at five percent and your profit from using the loan funds yields 10 percent, you are ahead of the game. Should the numbers be reversed, the loan impoverishes you. A major complication of this system of debt proliferation is that the increase in the total amount of debt, represented by the interest rate on the principal borrowed, over and above the amount of the money created as loans is certain and unavoidable. However, the rate of return on the future economic activity is cloaked in mystery. The venture may fail. The economy may slump, the borrower fall ill, a hurricane ravage the local economy or the borrower just simply make a fatal business mistake. The increase of debt is unrelenting, but the possibility of business and economic success is frail and uncertain. The history of finance is as much about error and loss as it is about gain. Because of the certainty of debt and the uncertainty of future profit, the more debt in the system, the greater will be the

difference between the growth of the debt and growth of sustainable activity in the real sector.

Some advocate a return to the gold standard as a way to discipline the economy against galloping debt. This is not discipline. It is a mean and austere haircloth. The gold standard is inherently deflationary; yet, by itself, the standard provides no adequate insulation to the underlying problem of unnecessary debt occasioned by the creation of money. Those advocating the gold standard misunderstand the true nature of money. There is nothing inherent in gold that makes it function better as a currency than fiat money functions. If gold were such an effective foundation of monetary policy, then all of the financial crises occurring prior to the advent of fiat money would be inexplicable. That gold, for a long time, was used as money does not mean that gold is inherently money.

There is no functional or intellectual difference between backing a currency with gold or with a warehouse of valuable paintings, silos of grain, or freezers jammed with pork bellies. Gold has its unique allure, but that allure does not make it the best form of currency. The uncertainty of today's economy is not resolved by regressing into the uncertainty of the past to disinter the gold standard. Resolution must be found in the opposite direction, in ridding ourselves of old ways and ideas no longer germane to the efficient operation of fiat money. If the current fiat system were reformed to enable government to issue its own money for deficit spending without recourse to borrowing it, that money will have positive value for government. On average, government spends three cents to produce each currency note, whether the note is for $1 or $100. There is a vast gap, between the value stated on any note and the actual printing costs. This gap is known as seigniorage.

As previously mentioned, Federal Reserve banks *issue* currency. However, the Treasury Department (Bureau of Engraving) actually *prints* the currency. It sells the currency to the private Federal Reserve institutions at three cents per bill. In effect, Treasury sells a

$100 bill to the Fed for three cents on Monday. On Tuesday, Treasury creates a bond to borrow $100 from one of the large banks holding shares in a Federal Reserve Bank. In the end, the Treasury will pay the private banking system over $100 for something it sold to that system for three cents. This system constitutes nothing if not a corrupt bargain, legally obtained. It stands as the most lopsided exchange since Esau forfeited his birthright for a bowl of porridge. Here, government transferred seigniorage to private banks at no charge, yet pays interest to those banks when they exercise that transferred right by issuing currency for government deficit spending.

If Treasury simply printed and issued the money, it could pay for goods and services acquired by government without creating public debt.[11] In fact, each payment for goods and services would enrich government due to the seigniorage differential. Should government contract for the purchase of $100 in pencils, it pays the vendor with a $100 bill that costs government three cents to produce. Because of its sovereign position, government purchases $100 worth of goods for only three cents and no one is the worse for it. In effect, government has taxed the vendor because the actual costs of what the vendor provided well exceed the actual costs of what government gives him. Yet all is well because the vendor can use the government note to purchase items at parity with the value of the items he sold government. At the end of it, government receives $99.97 ($100 in pencils minus $.03) and the vendor receives $100. No government debt is created. Under the current situation, government would have been saddled with a debt of over $100, yet would have only received $99.97 in net value. Government loses under the current situation, while the banks gain.

In the ideal situation, government would gain and the banks would be irrelevant to this transaction. There would not be a bond or government debt created. The difference in the government income spread between these two situations would be the total amount of the bond repayment, principal plus interest. As a practical matter,

amending the financial system in this manner would create serious dislocations injurious to the large institutional investors in the short term, and these dislocations would adversely influence the general economy. Yet, over the longer haul, this change would radically reform the financial system and government's fiscal system for the better, dramatically reducing government borrowing by reducing the correlation between deficit spending and debt accumulation. Government borrowing would transform from being the necessary instrumentality to procure deficit spending. Public borrowing would become primarily an instrument of monetary policy to set interest rates and control money supply. Government would sell bonds primarily to take money out of circulation. By controlling money supply in this manner, it would reduce interest and inflation rates.

By virtue of the benefits of seigniorage, the rendering of services or goods to government would become tantamount to the vendor paying a de facto tax to government, while still being fully paid for the goods or services rendered. Traditional public taxation would lower because government deficit spending would not generate much government debt. Instead of driving debt to potentially injurious levels, deficient spending would become a tool through which the overall economy was supplied with money to spur the type of productive activity that diminished the aggregate scarcity quotient in an equitable fashion. Additionally, when the economy is humming, deficit spending would reduce in order to contain inflation. If the economy slowed or developed too much idle capacity, deficit spending would increase. This would be much like its current function, save that little or no debt would be associated with the deficit. Decoupled from the trap of debt, deficient spending would actually be an active and major engine of sustained economic growth. Shorn of the biases of traditional economic thought, deficit spending has no moral connotation. It is merely an objective tool of economic growth to be used when conditions warrant its presence to sustain growth and to be shelved when it would fuel unwise levels of inflation.

In this situation, the public would have more money in hand, meaning there would be more economic activity yet with less borrowing needed to fund it. Taxation would become less a fiscal exercise and more a political and monetary one. Taxation would be used to maintain the social contract by maintaining the public's investment in their government and its programs. With their tax money allocated to these programs, the public would become politically "vested" in said programs. This would create an implicit political compact making it harder for financialists to push Washington to end these programs. If the people have a role, even symbolic, in funding important social service programs, then government would be hard-pressed to end such programs against the will of the people. Additionally, adjustment in taxation levels would be used to keep money supply within a manageable range, so it neither expanded toward inflation nor decreased toward deflation.[11] More importantly, shorn of the limitations imposed by debt, government could embark on targeted substantial expenditures on infrastructure, employment programs, scientific research and education needed to bolster the economy and position it for the future.

The argument for this reform is sound because it would create a financial system much friendlier to the average person than is the present structure. However, no financial policy is strictly a matter of technical efficiency or objectivity. The establishment of a financial structure is essentially a subjective political decision. It is a decision about who carries the costs and who enjoys the benefits of a nation's financial activities. The debt-ceiling deal ultimately struck by the Congress and the President called for a total of $2.4 trillion in budget cuts over 10 years. The deal never touched on the disadvantage of financing government deficit expenditure through debt creation. Thus, the fundamental flaw in government financing and in the financial system was never addressed. In essence, the debt ceiling crisis was about a symptom of a flaw, not the flaw itself.

Because of the grip the financial sector has on the political system, there is little likelihood that things will change without a major political realignment in America. The reforms mentioned above would benefit the public and the overall operations of government. They also would end the massive windfall the financial sector now enjoys. For that reason, none but the most courageous politician would dare mention this reform. Most politicians characterize as sacrosanct the current financial structure and its processes, as if tendered from the hand of God Himself. However, that is far from the case. These systems were invented by selfish men for their own benefit. It is a club of profit for its members and a den of debt peonage for others.

When politicians rail against "the printing of money" or "creating money from thin air" to pay for government programs, they are either ignorant or mean. Private banks have been creating money from thin air for centuries. The Federal Reserve System created over $10 trillion to save the private banking system from its own spendthrift during the 2008 recession. Few conservatives denounced this as wastrel. However, when it comes to government spending a small fraction of that amount on the poor or aged, the outcry is raised about profligacy, inflation, irresponsible socialism and the evils of government. Again, these arguments have little or nothing to do with economic necessity. They are political arguments couched in economic terms. People employ false economic certitudes to accomplish subjective political goals. They want the system to reward and further empower the moneyed class.

Beware of the politician who proclaims the nation must "live within its means." What exactly does that mean? They render a quaint, altogether inappropriate portrait of the nation as if it were an ordinary household. Thus, the politicians cry the budget must be balanced and the nation must survive off its revenues. This again is the application of the medieval hair shirt. If government retains the full advantages of seigniorage, traditional budget balancing exercises become irrelevant and obsolescent. The imperatives of revenue

collection are dramatically altered. Even under the current system, strict adherence to budget balancing is folly because the government can still obtain its currency whenever it needs money, although it must borrow the funds. No nation that prints its own currency and has its debt denominated in that currency can be endangered by bankruptcy. If that nation is like a household, it is that rare household with a printing machine in the attic. The danger for such a nation is not default caused by lack of money to pay debts. The danger for such a country lies in the opposite direction—inflation caused by the issuance of too much money and debt.

The way American politicians speak, they would have the public believe government debt is a novel occurrence. They count on public ignorance to mask a deception. For roughly 200 of America's 236 years in existence, it has run budget deficits. These politicians neglect telling the people this truth. Those few times when the government balanced the budget or ran a surplus were occasionally preludes to significant economic contraction. This might sound counterintuitive, but, on balance, government deficit spending is a more reliable fillip for economic growth than is a budgetary surplus. The reason is simple. If government holds a net surplus, the private sector must have a net deficit. This means the private sector gives more to government via taxation than it gets from government goods and services. This negative flow shrinks private-sector activity. If government runs a deficit, the private sector gains more than it gives government. That gain will spur private-sector activity.

Consequently, when politicians claim the nation must live within its means, they are trying to restrict government spending to revenue and further restrict that tight spending to programs they favor. This is sophomoric. Living within the nation's means is not about revenue attainment, as if the government is an elaborate collection agency. Living within its means should refer to what a nation should do to realize the full potential of its economic resources, particularly its labor force.

This progressive goal abhors a sheepish obeisance to the strictures of revenue collection. If we view the term objectively and not in accord with conservative orthodoxy, then living within our means has a more expansive definition. It requires the use of fiscal policy and the "printing of money" to help spur tangible and productive economic activity right up to the point where an increase in inflation becomes injurious to economic growth and the substantial employment of economic resources. This should be the true definition of living within a nation's means, for it is a functional definition tied to economic dynamics and not to a dry accounting tautology divorced from those dynamics. Again, the objective is for the government to spend sufficient amounts, even if those amounts represent deficit spending, in order to bring the economy to the highest levels of sustainable employment of labor, resources, and capacity without driving inflation beyond levels acceptable within the context of the American political economy. This is the only way to assure broader prosperity and decent economic openings for all social classes over the long term. The current hierarchal financialist system does not meet these requirements. Instead, it only exacerbates inequality, debt, and chronic unemployment.

Clearly, the American financial system was built to aid the bankers by creating a windfall for them based on government debt. When the system was conceived, American industry was in its heyday. Those who built the financial system thought it could suck an enormous amount of blood from the real economy without doing damage to what then was the world's fastest growing industrial power. However, decades later, the advent of fiat money and the slowdown of American industrial growth have turned this initial calculation into a lethal mistake. Coupled with the rapid sophistication of the financial system and the instruments it uses, fiat money has promoted an unprecedented growth in money supply and in debt. Unprecedented aggregate debt, both private and public, now chokes the system. The nation must move decisively to stanch the tide of debt. Sadly, in trying to achieve this objective under the current system, the nation will do what it should not do. It will cut

government spending, mainly on social services. This will take more from people who already have less than they should. While the poor will reap the whirlwind, large banks will continue to reap what they never sowed. Money Power will remain dominant in all aspects, unless the system of money is changed.

If the system is reformed as above stated, the face of American democracy may shine a little brighter. Government by, of, and for the people may finally give financialism a real run for the people's money.

Conclusion

We must remember that money is but an idea; it is based on the utile concept that we can transport value and segment it into measurable units. This concept was invented for no other reason than to expand commerce and reduce scarcity. While we can approximate this concept of portable and perfectly objective economic valuation, its full realization evades us. We cannot attain this goal because value is inherently a subjective measure. We can never all agree on the value of things. Thus, even the process of valuation of economic objects takes on a competitive air. Much like that surrounding a commercial exchange, this process has elements of both cooperation and conflict. In general, this means those who are affluent and who hold greater control of the financial system have greater leverage in defining the "general economic" value given items, services, and processes. For one person who has $100, a certain package of goods will satisfy his measurement of the value of the money he holds. Meanwhile, another person identifies an entirely different bushel of goods to literally fit the bill. Put another way, if the $100 is used for certain items, one person may think it is a fair exchange. Another may think those items were actually worth $102, while a third may think the times have no more than $70 in value.

A small but cumulatively significant part of monetary price has a subjective "political" component. To the extent that this component exists, it is a decision made by actors based on their prejudices and preferences. The more financialists control the economy, the more their selfish definitions of value and all that is based on value, such as growth and inflation, will control how the economic situation is measured and perceived. Despite their free-market histrionics, they will assert that government spending in ways that profit them is "tolerable," just as they did when the government extended trillions of dollars during the bank bailout. They will decry spending on things they oppose as inflationary, as they did regarding the fiscal stimulus and the assistance programs for workers made unemployed by the recession.

In the end, money is good. Greed is not. The advent of money has been an indispensable partner in the march of economic progress. Without money, the expanse of commerce and large-scale investment in production would have been impossible. However, money is not wealth. Great trouble and damage lurk when too many people conflate the two. There are always those who will seek to make money from money. This narrow class of people serves an important function. Their desire to obtain, borrow, and lend money keeps the cogs of the economic machinery well oiled. However, when too many people assume the behavioral attributes of financial speculators, the economy becomes an invitation to danger.

Speculation is but the behavioral manifestation of the false conviction that money is wealth. Financialism is the most apt name for this false conviction. In effect, financialism transforms speculative behavior from an adjunct of economic activity into the foundation of the economy.

During the historic financial crisis summarized in this chapter, the affected nations sought to end the crises by restoring the balance between the financial and real sectors. Some nations did this more successfully than others. In most cases, the period of excessively

muscular speculation was brief. The periods defined by the slide and by the subsequent recovery were much longer. The instances of excessive speculation were short because those financial systems were not as multilayered as the modern system. In years and centuries past, economies did not enjoy the vast array of financial instruments in which modern speculators wallow.

These new instruments allow for more circuitous and more incestuous investments within the financial sector. More money can remain and swirl within the financial sector for longer periods. Due to the multiple layers of current financial instruments, financial speculation is further removed from the real sector than at any other moment in economic history. This means speculation can continue for much longer periods before the need for correction becomes compelling. Excessive speculation has transformed from being a temporary aberration into becoming an institutional aspect of the political economy.

Chapter Seven

Financialism Trumps Capitalism

The worst form of ignorance is that which does not know that it does not know.

Although not the birthplace of capitalism, America claims to be its bastion. Fifty years ago, this assertion was true. Since then, the ground has given way. Those who now peddle this notion, peddle an extinct idea. That legions of people persist in a belief does not make it less false. All their belief means is that they have failed to comprehend the reasons behind the unease they feel about the American economy. They focus on the aftershocks' vibrations but ignore the earthquake. They believe the economy has come upon a temporary rough patch. They fail to grasp the economy has happened into this nettle because it veered in a callous direction many years ago. What occurred in 2008 may be less anomaly and more the coming normalcy should the economy persist on its financialist course.

America is no longer capitalist in the best sense of the word. Capitalism has been ambushed by the more voracious creed of financialism. Those who steered the American economy during its post-war heyday would be reduced to tears by the direction their beloved vessel has taken. It is as if the future promise of reasonable prosperity has been ironically voided by the seemingly benign condition of the surfeit of money caused by protracted prosperity. The America they knew roared with the sound of machines and equipment churning out products of good quality in great quantity. Today's economy is known by the shuffling of financial paper.

Capitalism stood on the importance of the factory and assembly line. Financialism is defined by the dominance of banks and money houses. America is no longer the world's manufacturing epicenter. America used to roll up its sleeves to make something. Now it is more apt to roll out sheets of financial paper from its briefcase. America has lost the verve for manufacturing. As it forfeited this skill, it honed those that made it the innovator of financial instruments of startling nominal value but questionable worth. That the instruments have no clear and direct relationship to any productive endeavor is inconsequential. The aura of money and the semblance of that aura have become most important. Previously, money stood as the prime measurement of prosperity. Those who manufactured saleable products earned the most money. Financial affluence stood as evidence of enviable performance, but neither money nor its mirage was to be confused with the performance itself. Today, America looks at the economic process though a different lens. Economic players are more interested in making money than in manufacturing items that, if placed in commerce, would make them money. In today's setting, money has been exalted to the status of both the means to the objective as well as the objective itself.

Financialists see money and other financial paper as the means to make more money. The production of goods is an ancillary, sometimes bothersome, consideration. America has become a nation populated with too many people obsessed with speculative behavior. Financial speculation is no longer confined to a small minority. It taints a large number of decisions and policymakers who make them. With maximization of short-term profit as their *idée fixe,* they preclude themselves from lending due attention to matters fostering long-term prosperity. Greed is the utmost virtue of this system. Yet, greed is a leveler of personal decency and entire economies. Once seduced into greed, both the wise and the foolish, the quick and the slow, embark on behavior that consumes them. A deep pit lined with

money is no less a pit. When one tumbles into it, he discovers money does little to soften the fall.

To call America a capitalist economy is a misnomer. It is akin to speaking of fallen fruit, as if still on the tree. That the instigators of this new way call their mutation capitalism is not surprising. If they call it by its rightful name, the mass of people may well notice the grave wrong done them. The best way to win acceptance of an inferior creed is to expropriate the name of a belief already well accepted. This new economy still bears sizeable and important elements of capitalism, but these factors no longer lend the economy its essential character. That this unequal duality exists is not strange.

In bygone periods, mercantilist economies bore elements of nascent capitalism that for a time buoyed mercantilism. Those latent capitalist aspects subsequently strengthened to where they swept aside that which preceded them. In the modern age, a similar dynamic linked capitalism and financialism in simultaneous cooperation and competition. The more financialism grew, the more it came to undermine capitalism. Capitalism always contained financialism's primary element, namely speculative investment. However, this aspect was a chamber in a larger edifice dedicated to serving the interests of the real economy and its production of material goods and related services. During the height of capitalism, the aspects of financialism present in the capitalist topography were too few and volatile to sustain themselves, let alone enlarge themselves to arrogate the role of the peak economy.

Financialism's traits were thus recessive and subservient to the dominant capitalistic motif. Capitalism lionized the complex interplay leading to the efficient employment of the means of production, including labor, to manufacture tangible goods. This did not mean the financial sector assumed a negligible role. It played an important yet ancillary function. The financial sector kept the capitalist system lubricated by allocating funds to the economy's most productive elements, for either investment or consumption, so

those elements could remain productive. As such, the belief in money as the fount of wealth and the speculative behavior concomitant to this belief served as congenial mirages so long as the delusion was confined to a limited set of actors. When this delusion affected too many people at the same time, an economy hyperventilated with excessive risk-taking.

The seeds of financialism, in fact, predate capitalism. The threat of financialism came into existence with the invention of money. The history of sound economics and prosperity is, in large part, the history of holding financialism in check. When elements of financialism were given vent, calamity was let loose. Most major economic downturns—depressions and significant recessions—began as financial storms. These financial storms occurred when the relationship between the real economy and the financial sector lost balance, when the financial sector bloated due to speculative excess. In its rapid expansion, the financial sector temporarily supplanted the real sector as the fulcrum of economic activity and growth. These past crises were transient eruptions; they were also foreshadows. They constituted proto-financialism.

Marx correctly asserted that capitalism held the seeds of its own destruction. However, he erred in identifying labor as the battering ram. The threat would not emanate from a revolutionary labor class irate at the injustices of the political economy. The most lethal assault came from the spread of a subtle mistake in thought. The challenge emanates from the wrongful belief that possession of money equals genuine wealth. The dissemination and broad acceptance of this potent error has led to the creation of a large and powerful class that undermines the productive economy. This new class reveres the financial sector and sees it as if it were an economy unto itself, autonomous and distinct from the real sector. These are the financialists.

Capitalism does not face extinction because it has given rise to its angry opposite. It faces demise because it has given rise to its uglier

self. Capitalism has a wide mouth and sharp teeth, but financialism has sharper teeth and a more voracious appetite. Marxists decry capitalism as inhumane. What Marx would say about financialism would be unprintable. Even a flint-hearted 19th-century capitalist would denigrate financialism as a form of cannibalism. While exalting themselves as capitalism's purists, the modern financialists have promulgated a doctrine of financial license so perverse that they undermine the very capitalist system they purport to revere.

The Demise of American Capitalism

With Europe destitute and pocked by war, America emerged from World War II triumphal on two major accounts. First, America indisputably was the world's most powerful nation. The great nations of Western Europe were tired and ravaged, their economies skeletons of a former prosperity. Save for Soviet dominance of Eastern Europe and for that enigmatic mass known as China, American power cast its shadow over the globe.

Second, the war did more than afford America the chance to defeat its fascist enemies: the war allowed America to beat the Depression. President Roosevelt's expansionary New Deal policies prevented the Depression from irreparably damaging the political economy. Yet, depression lingered during the 1930s. Its ghost walked the land, rattling the chains of economic misery and pinioning the national psyche on the eaves of uncertainty. However, the war and the unprecedented industrial production needed to sustain America's martial entry defeated the Depression as much as it did the Teutonic nemesis. War provided an unassailable national security rationale for the massive deficit spending that would have been politically divisive in times of peace. World War II represented one of those rare incidents of history where the actions required to protect the nation from external threat were also those needed to erase the fundamental internal challenge. Usually a nation must strike a balance between expenditure for national security and

expenditure for internal prosperity. This time, action in the service of one equally advanced the other.

American war production exceeded the prodigious. At full tilt, the nation's once languid productive capacity yielded an output unlike any theretofore witnessed. Told of Roosevelt's pledge for the annual production of war planes, the Reich Fuhrer scoffed the American President was romancing insanity, a dalliance with which Hitler had intimate knowledge. Hitler concluded Roosevelt's numbers were preposterous. Both Hitler and Roosevelt were wrong. Trampling the residual chards of depression, the awakened industrial giant exceeded the President's optimism.[1] By the beginning of 1942, America was producing more steel than the two major Allied and two major Axis nations combined.[2] The Herculean production continued to the war's end. Given the capacity of the American economy, the Allies were assured of eventual victory. Germany and its allies were not crushed by noticeably superior troops and strategies but by the avalanche of American steel. (The grit of Soviet troops holding down the eastern front is not discounted. Once the Soviets had repulsed Hitler's surprise invasion, tying him in a two-front war, the sheer weight of Allied industrial strength sealed the monster of Berchtesgaden to his doom.)

At war's end, America, compared to other nations, was like an athlete in virile prime standing amidst crumpled old men. Learning from its past mistake, America did not return to isolationism as it did after World War I. America assumed global leadership. It spearheaded the establishment of the United Nations based upon an incongruous mix of liberal democratic principles and considerations of *realpolitik*. On the economic side, American officials constructed the capitalist Bretton Woods international monetary system with a little help from their British friend, the ailing John Maynard Keynes. In response to the lessons wrought from the Great Depression, this new system extolled free markets, open trade, and financial stability. To its credit, the new financial system worked fairly well for nearly 30 years before its first major adjustment, the 1971 shelving of the

gold-backed fixed exchange rate. Additionally, America helped secure the resurrection of liberal democracy in Western Europe with a massive recovery program, the popular Marshall Plan. In the Far East, the megalomaniacal Douglas MacArthur did something in administering Japan he found impossible to perform at home: he exercised prudence. Less than liberal in background and personality, MacArthur oversaw an enlightened program of recovery and introduction of democracy. Within the breadth of a generation, Japan would be propelled from the rubble of defeat into becoming a great economy.

Coming out of the war, the United States was so far ahead of the other major nations that it appeared to be a nation unique. Americans had reason to believe the lore of manifest destiny. Yet, the vast differential enjoyed between it and other nations was bound to reduce once those war-scarred nations resuscitated. The gap was merely an incident of history, not an enduring testament to the innate superiority of America. However, for the two decades following the World War, America would be at the peak of its economic power.

In the 1950s and early 1960s, American capitalism was robust. Industrial production was muscular and booming. America appeared to have found the path to freedom from want. Compared to current times, corporate America was disciplined and frugal. Executive salaries and remunerations were relatively modest. In both real and nominal terms, high-end executive pay was a fraction of what exists today. Income distribution pointed toward greater equality. The middle class expanded due to the creation of jobs and the widening of avenues of upward mobility caused by the keen pace of economic growth. This was the era of vast, homogenous middle class housing estates like Levittown, New York. During this period, financial houses and banks operated conservatively. Bankers, political leaders, and the public remembered vivid lessons from the Great Depression. With so much progress being made, no one was eager to repeat the miscues. Banks stuck to their role as facilitators of the real

economy. Because of legal and institutional cultural impediments, commercial banks could not engage in the types of rapine proprietary trading and investments that abetted both the Great Depression and the 2008 recession.

Moreover, the global economy had not yet witnessed the birth of the exotic financial instruments that now define global finance. Banks were orientated toward lending to the most profitable sectors of the real economy. The financial sector did not yet seek to drive the economy. Automobile manufacturers General Motors, Ford, and other large manufacturers like General Electric, IBM and U.S. Steel were what people saw when they looked to the peaks of the economy. There was financial speculation and risky investment. There always is because some excess is as intrinsic to our collective behavior as is rectitude and self-restraint. However, speculation was limited to a few players and was not highly revered as the path most people should take to wealth or social distinction.

This period and its capitalism were far from idyllic. America was still a nation constructed along a rigid racial divide. The nation subjected its Black citizens to a full catalogue of gross and petty discrimination. The few Blacks who could afford it still could not move into a place like Levittown because real estate deeds likely contained restrictive covenants precluding sale to them and other minorities. In the South, voting rights remained something hoped for but not attained. For the slightest deviation in behavior, a Black man could still find himself on the wrong end of a rope slung across the sturdiest branch of a tall tree. Sexual discrimination against women limited their career choices and paths. Companies knowingly made and trafficked inimical products with impunity due to a legal system that unabashedly favored business over public interests.

Overseas, America took a simplistic Manichean view toward political developments in Latin America, Asia, and Africa. A nation was either pro-American or pro-Soviet. Middle ground did not exist. America intervened on the wrong side in many places. The nation

was flush with power, and that fullness led to arrogance, and that arrogance led to error. President Eisenhower cautioned the nation that its democratic and egalitarian principles were under assault by the "Military Industrial Complex." He worried big business was getting too big. While Eisenhower saw representative democracy under threat by big capitalism, he failed to grasp that capitalism would soon be under assault by financialism.

During this period, America's major flaws were more political than economic. Politics and economics cannot be divided neatly since one influences the other. However, some issues are more solidly one than the other. It would not be brash to say of this era that, given the robust operation of the economy, the political system could have done more to address its own contradictions. Conversely, it would be indefensible to assert that the economy could have performed much better given the structures of the political system. Due to the economy's growth, Blacks and women were grudgingly presented with employment and other opportunities nonexistent the generation before. Although still lagging behind the opportunities provided white males, these new economic openings fed the drive toward political equality. The Civil Rights and Women's Rights movements had an important economic underpinning. Neither advance would have evolved as it did without the economic openings of that period. Both movements were predicated on the courage and foresight of the leaders and the inherent justice of the cause. However, the optimism and sense of open space created by the period of growth paved the ground and helped make society more receptive to the two movements. During a period of economic retreat, neither movement would have been possible in the form it took.

By the mid-1960s, the rest of the world began reducing the economic distance between itself and America. As America entered that decade, it faced an option. It could reinforce those factors that made its economy preeminent, or it could assume its economy was permanently ordained for the highest heights. The latter implied

Americans need not bother with the evolution of the economy or with the quality of their decisions regarding that evolution. Whatever path taken would lead to the same destination: America at the head of the global pack. Based on this teleological fallacy, America unwittingly embraced minatory changes to the fundamental structure of its economy. It was pure folly for the nation to think, in the face of strengthening global competition, it could maintain its vast economic lead simply through boldness of action unattached to sagacity of strategic thought.

Successive years of economic growth and prosperity had fostered the delusion that growth and prosperity were inevitable. Because of the widespread acceptance of this myth of economic invincibility, the nation failed to discriminate between positive and negative economic trends. Becoming the best is daunting, but it is not the steepest challenge. America's experience proves that achieving high station is less taxing than maintaining it.

America let down its economic guard just as the guard became needed. Previously, the historic incident of its geographic isolation from the battlefields and political intrigue of Europe had been generous to the nation. Now the historic coincidence of economic laxity at home and economic rejuvenation abroad would demand payment from this inattentive beneficiary. Slowly, America began shedding its productive capacity while other nations augmented theirs. America took its first remorseful steps toward the negative transformation of the economy. It pulled away from its industrial/manufacturing foundations by moving toward a finance and service-oriented architecture. Economic globalization was also being reborn at this time. As with the economic globalization that occurred in the 19th century, this newer round would suggest a new international division of labor. Until the 1960s, manufacturing and industry were the hallmarks of an advanced economy. Steel production traditionally indicated economic power. Imperceptibly, America changed the yardstick; it came to measure economic

strength and prosperity by how much financial paper is transmitted between its major banking houses.

So accustomed to success, America did not consider that its steady departure from manufacturing and production could be other than benign. America hailed itself as the first post-industrial state. Too many Americans welcomed this development with too little thought of its consequences. People did not grasp that post-industrial conditions would disinter pre-industrial conditions in ways that were pauperizing. In the post-modern constellation, manufacturing and the employment it created began to fall to the lower rungs of economic sophistication, prestige, and importance. The etiology of the 2008 recession traces back to this period roughly four decades ago when the financial and related sectors began to assert prominence over the real economy. The nation had over-sublimated its economy. America's leaders failed to appreciate the deeper logic that real wealth is the creation of tangible items. Had they been more attentive in class, they would have remembered numerous examples where rentiers came to dominate their economies only to ruin them. Trouble beckons when nations shun the prosaic requirements of bolstering their productive capacity in order to lavish attention on the Siren of financialism.

In the 20-year period between 1967 and 1987, Philadelphia lost 64 percent of its manufacturing jobs. Chicago shed 60 percent, New York 58 percent. The car manufacturing capital of the world, Detroit, said farewell to 51 percent of its manufacturing jobs.[3] In 1959, less than one-third of those living in poverty lived in metropolitan areas. By 1991, central cities contained nearly half of the nation's most impoverished citizens. The reduction of manufacturing jobs replicated itself in most cities across the country. The lost jobs negatively affected poor and working class urban neighborhoods beyond mere employment numbers. These jobs previously injected modest but necessary supplies of money and hope into cash-strapped ethnic neighborhoods.

The availability of these jobs produced a critical mass of consumers to allow stores and other services to be provided in these modest neighborhoods. The loss of the jobs and the concomitant increase in long-term unemployment in these cities would turn poor, working class communities into ghettoes. What were ghettoes before degenerated into densely packed, urban versions of the desolate reservations into which large segments of the nation's unrequited Native American population had been sequestered. The ghetto became the super-ghetto. The large, violent inner-city gangs that have since become notorious landmarks in the national socio-cultural terrain emerged from this cauldron. Once thriving cities became blighted. Factories once known for producing steel literally turned to rust. Cities housing these factories would follow a similarly morose process of economic oxidization, turning the region once known as the steel belt into the rust belt.

Few outside the distressed areas paid much attention to the reduction since most of the vanishing jobs were low-skilled entry level positions. However, these positions traditionally served as avenues for ethnic minorities to enter the mainstream workforce and become working class cogs of the political economy. Financialism took its initial toll on the anxious dark-skinned and poor people waiting to gain entrance into a modest version of the American dream. Financialism waylaid this same population during the fall of the real estate and mortgage markets in 2008. To its credit, financialism has been meanly consistent. Once on top, it has refused to rise off the poor man's back. Robotics and other innovations in productivity also flushed jobs from the hands of those trying to climb the economy's lower rungs. The middle class would remain indifferent to the job erosion until it was too late for it not to harm them. Even when they began to feel the pinch, most still did not grasp the vast change taking place. As always, society would compose a theory blaming the economic troubles on those least able to cause the problems, let alone cure them: the poor.

Advocates of financials and of the post-industrial economy asserted the wane in industrial employment would be compensated with better jobs in the service industries. Each time they repeated the mantra, they repeated a lie. True, jobs in service industries expanded. In the aggregate, the new service sector positions offered lower wages than the vanishing factory jobs. Factory jobs provided employees not only stable work but the chance to advance within a large organization provided there was a modicum of fairness in employment practices in that particular workplace. Again, this was traditionally how ethnic minorities climbed the socioeconomic ladder. The shift to service sector employment broke the ladder's rungs. These service positions were not of the type where a worker could easily obtain a specialized skill. Opportunities for advancement were reduced because of the structure of most service sector businesses. Throughout this new economy, career advancement and job promotion increasingly depended on levels of formal education and less on actual work experience. This would stifle lower class workers who did not have the tertiary education requisite for promotion.

As jobs migrated from the industrial sector, labor unions lost influence and bargaining position. The strongest and most cohesive unions were in the traditional manufacturing sector. The service sector was less amenable to unionization. The more that jobs migrated into the service sector, the lower became the overall percentage of unionized workers. Low-end service sector jobs were more transient than their manufacturing counterparts. Because job qualifications were scant, a larger pool of labor competed for the same jobs. This reality suppressed wages. Workers would change jobs more frequently without gaining much through the change. Some observers romanticized notions that these movements were signs of a mobile and versatile workforce. They wanted to portray this as the dance of the nimbler modern worker. To some extent, this happy depiction was true. It just was not true enough. Factors less convivial were at work. The faster movements and transfers implied growing uncertainty and frustration. Sometimes, when people

display innovative footwork jumping from job to job, it is not in cheerful exhibition of their nimbleness but in belief that solid ground is unavailing; with the earth shifting beneath their feet, they had better hop to keep from sinking. Yet, as the nation entered the 1960s, this dynamic, so minatory to labor and the real economy, was not apparent. It lay in the future. America entered the decade brimming with change and the belief that change was synonymous with progress.

A profound psychological shift occurred in the 1960s. Partly, this change was a product of the fallacy of success. As previously mentioned, an individual can experience success in an endeavor for such a prolonged term that he comes to think success is inexorable. Firms and nations are as susceptible to this fallacy as an individual is. American business saw itself at the pinnacle of success. Instead of exercising the discipline needed to perfect what had engendered this prosperity, American firms abandoned the winning formula. They thought they were the winning formula. This arrogance produced a subterranean disdain for economic discipline and a thirst for a level of speculative freedom that amounted to profligacy.

As such, the radicalism of the 1960s was not confined to liberal politics. The decade occasioned intellectual foment and breakage of previous strictures for conservatives as well. The spirit of the age infected conservatives as much as liberals. Left wing activism and its radical offshoots have received more attention from the decade's chroniclers. The leftists were noisier and more flamboyant than their counterparts on the right. This imbalance in attention does not mean the left's antics carried greater long-term consequence. The opposite stands as the more accurate verdict. The conservative intellectual movement spawned in the 1960s had more substantial influence on economic practice and policy than anything the left did. The 1960s were considered the apogee of liberal thought in American society and politics. Yet, the same decade sponsored the gestation of a strong, almost reactionary conservatism in economic thought. Over the years that followed, this economic conservatism would dampen

the liberal social and political views born that same decennial. This conservatism laid the brickwork for the economy as we now know it.

In a fundamental way, the decade was a time of national bifurcation. America would develop an acute personality disorder. While moving spasmodically left on social issues, economic philosophy was heading strenuously rightward by the decade's end. This growing dichotomy would exacerbate and expose social contradictions partially submerged by post-war prosperity and by the relative staidness and conformist ethos that described the immediate post-war political economic culture. Despite the wide gulf in substantive beliefs, both the left and the right shared a common ideal, the exercise of which would split the two schools farther apart: Freedom.

The America of the 1960s was a vastly different country than its WWII version. Ironically, the war seemed to have sparked more social change in the major belligerent nation least damaged by the conflagration. Few saw this coming. Coming out of the war, the national mindset was one of triumph. There was a unity of purpose that would not end immediately upon cessation of hostilities. After seizing the laurels of victory during the epochal struggle, the nation wanted quietude and calm. Although prosecution of the war profoundly transformed the structure of the economy and society, the hard socio-political questions emanating from these changes were temporarily held in abeyance. After having fought the war to end all wars, America was not yet ready for social war at home.

Year by year, the nation moved away from the unifying pull the war exerted. As the strength of that pull waned, centrifugal forces in the post-war political economy asserted themselves. Latent social inconsistencies would no longer remain so. The submerged boiled to the surface. The 1950s era of good feeling ended, replaced by a decade where the bells of freedom would peal simultaneously for different people seeking different, sometimes competing freedoms. The most famous aspect of the 1960s was the Civil Rights Movement

where Black Americans and progressive whites broadly protested to achieve equal rights for all. This was counterpoised on the economic front by a conservative revolution that would alter the reality of American capitalism more than the Civil Rights Movement changed social reality.

Nineteen-sixty-three was a pivotal year. During that year, a 34-four-year-old Black preacher led a massive march on Washington, DC to request equal political rights for America's Black minority. The power of moral suasion and conscience fueled this march. This became the majestic symbol of the Civil Rights Movement. Because of the March on Washington, the end of legal racial segregation became an irresistible force. Only the exact time and date of its demise waited to be revealed. The Women's Movement and Anti-War Movement drew fuel from this. Native Americans, Latinos, and the gay and lesbian communities also drew inspiration from the Civil Rights Movement. As time moved on, everyone joined the freedom bandwagon. If America's humble Black masses could register their audacious claim for freedom, the conservative economic class could do likewise. Their claim would be made with subtlety and less public attention. It would also be made with less understanding and debate about its ramifications. The lack of widespread attention and comprehension allowed the conservative's promotion of financialism to seep into practice in a more purified form than if it had been subjected to the rigorous public debate the Civil Rights Movement endured.

The same year Rev. King led his March on Washington, Milton Freidman and Anna Schwartz authored the seminal, *A Monetary History of the United States 1867–1960.* This book signaled the emergence of monetarism as a driving force of macroeconomic thought and policymaking. Through this and other writings, Friedman established himself as the preeminent conservative economist and perhaps the most influential American economist of the past century.

Assailing Keynesian liberal economics, Friedman expostulated the Great Depression was not caused by slumping aggregate demand. Friedman proclaimed the Depression was a needless tragedy, caused by blunders in monetary policy. Faced with a jolt to the financial system coming from the normal revolution of the business cycle, the Federal Reserve overreacted in the most inimical way according to the monetarist interpretation. Instead of expanding monetary supply to compensate for the deflationary spin of the business cycle, the Fed reduced money supply. This was like the ship averting the iceberg by steering into it. By this mistake, said Friedman, the Fed transmuted transient downturn into massive depression. Keynesians would credit Friedman with identifying a factor leading to the Depression. However, they would have further explained the initial financial jolt was against the stocks of companies in a productive sector that lost its muscularity due to flaccid aggregate demand. The more progressive of the Keysenians would add that the flaccid demand was a product of increasing income inequality where the consumption levels of the affluent did not keep pace with their surge in income.

Friedman's denunciation of Keynesian liberalism was an assault on the prevailing economic worldview. Friedman would rail that the Excalibur of Keynesian economics, government intervention to maintain aggregate demand, was an otiose expenditure. For him, the Keynesian notion of governmental fiscal activism was inimical. Friedman did not believe government could effectively manipulate aggregate demand via any form of fiscal policy. In effect, Keynesian economics and Roosevelt's New Deal were spittle.

To Friedman, government was at best an ineffectual economic player. If Friedman were right and if shorn of the utility of fiscal policy, government's role in steering the economy would be limited to monetary policy. Friedman's maxim was that, in every instance, inflation has proven to be a monetary phenomenon. Thus, only monetary correction might cure it. Friedman believed the greatest influence on levels of employment and inflation was monetary

policy, more specifically the aggregate money supply. He argued deflation could be tackled by expansionary monetary policy and inflation duly battled by contractive policies. He espoused long-term growth and stability could be achieved through consistent but incremental increases in money supply.

A year before the seminal work on monetarism, Friedman authored *Capitalism and Freedom*. This aptly named book was a paean to libertarianism. He decried government intervention in the economy as inimical to both economic efficiency and individual liberty. In the employ of lesser minds, these ideas would be used to promote a libertine philosophy that metastasized into acute financialism.

Friedman would suffer a plight familiar to those few economists whose works enter the arena of popular discourse. His thoughts would be shorn of subtlety. The popular interpretation would be a brusque caricature of the original idea. In the service of less refined minds, Friedman's thoughts would become blunt instrumentalities used to develop a strident economic culture resembling Social Darwinism in its malign indifference to those residing on the outer edges of the political economy. Those shopping for an intellectual basis to counter what seemed to be the waxing tide of liberalism would add spice to Friedman's work to suit their purposes. Lay interpretations of his scholarship furnished the intellectual foundation for economic policies of the modern Republican Party. In fact, Friedman served as an economic advisor for the failed 1964 Republican Party presidential candidate, the libertarian Barry Goldwater. Such a union was surely ordained by the deities of conservatism.

Friedman's work was important for what it said. However, his contribution's greater influence was forged by what other people made it say. His work would be used to bring new intellectual force to political conservatism. In a fundamental sense, Friedman was the intellectual author of a delayed counterrevolution to Franklin

Roosevelt's New Deal and the liberal economics upon which it rested. By junking the efficacy of government fiscal policy management as a costly charade, Friedman asserted government's role in the economy should always be restricted to monetary policy. Moreover, the best monetary policies were gradual and minimalist. Consequently, government should not resort to deficit spending to pull a nation from recession or reduce spending when the economy was inflating. Prudent change in monetary policy was the sole avenue to happy equilibrium.

This fixation on monetary supply would have tremendous consequences, many of which Friedman likely did not intend. His almost obsessive concentration on money supply would become translated by financial practitioners into the intellectual rationale for a new economic hierarchy where the financial sector would trump the real sector. If money supply were the prime determinant of economic well-being, it was only a small intellectual step to conclude the financial sector and its deployment of money to make more money were more important than the production of tangible goods. In other words, the financial sector was kin to money supply and policy while the real economy was kith to fiscal policy. Although there is no indication that he intended this consequence, Friedman's work helped turn capitalism on its heads by elevating money management and financial manipulation over the production of goods. As the father of late 20th-century conservative economic thought, Friedman is the intellectual progenitor of early 21st-century financialism. Being the father of late 20th-century conservative economics could be deemed an accomplishment. Being the progenitor of financialism will forever mar Friedman's legacy.

In short, he unwittingly provided intellectual grist to one of the most ancient of sins: the love of money. In that he propounded a much smaller role for government, his epigones would seize upon his arguments to call for vast reduction in government regulation of the economy. It was sad coincidence that Friedman's contributions occurred contemporaneously with the first stages in the transition of

the American economy from its industrial foundation to a service-oriented, post-industrial condition. This confluence reinforced both the intellectual and cultural trend toward belief in money as the fount of wealth and prosperity. It further compelled the practical devolution of the national economy into one where the manufacturing sector would atrophy while the financial, insurance and real estate sectors would grow tumescent.

Because of how others used Friedman's work, the economy evolved into something that would undermine the soundness of his analysis and into something that would be less responsive to his prescriptions. His cocksure remark that deflation could be cured by tossing "money from a helicopter" remains amusing but has been proven wrong. In the throes of a recession triggered by plummeting asset prices, such as the one Japan experienced in the 1990s, monetary policy loses effectiveness. The Japanese tossed money at their deflation to no avail. The helicopter was grounded due to stronger deflationary wind shear.

Based upon a long-term analysis of the relationship between money and economic growth, Friedman erred in deducing that money supply was always the economy's most important catalytic agent. Over the long haul, economic and financial indices tend toward convergence and equilibrium. While assessing long-term correlations is important, this attempt runs the danger of establishing erroneous causal relationships that do not apply, especially in the short and medium terms. During the period Friedman studied, the American economy trended toward significant increase in all major aspects. It was easy to conclude that the fluctuation of money supply was the primary determinate of levels of economic activity and of price because of the long-term correlation between the growth in money supply, economic production and increase in economic prices. However, this perspective discounts the important range of short-term and intermediate decisions and factors that ultimately merged into the long-term perspective. If greater attention had been paid to these realities, Friedman perhaps

would have developed a more nuanced view of the function of the money supply with regard to its effect on inflation and on employment (of human labor and of physical capital assets).

It is the levels of employment of these factors and the complex of underlying economic reasons that determine any given levels of employment of these factors that shape future employment, real productivity, consumption, savings, investment, growth, and output. He correctly stated that shifts in money supply do influence these things. While true, the postulate accounts for but part of the tale. At different times, identical shifts in money supply can yield dissimilar short- and medium-term changes in productivity, growth, investment, consumption, and employment because of the difference in underlying real economic conditions; these differences in short-range responses tend, in the longer-term perspective, to fade into the general landscape much like hills on the far horizon. In addition, drastic changes in output and productivity, particularly creation of new industries and products through the advent of groundbreaking technologies, or exogenous disruptions to real-sector activity can encourage rapid changes in the economy that run afoul of Friedman's dictum of incremental increase. These short-term variations are due to the differences in the vitality and strength of the underlying real economy at different times. These variations are also colored by then extant levels of investment in productive enterprises as compared to short-term speculative financial activity, both of which vary at any given time.

Friedman did not give these considerations sufficient weight in his theories. In other words, the underlying state of the real economy will likely determine the unique effect that monetary supply modifications have on the real economy. Identical changes in monetary supply will not have uniform effect simply because the complex of factors shaping the economy will be different each time. Throw the same ball against two different walls. One wall remains intact while the other crumbles. The most likely explanation has little to do with the difference in the two tosses but with the varying

strengths of the two walls. Underlying all Friedman's constructs is the belief that financial markets always seek equilibrium and are, thus, self-correcting. This also means he assumed an always stable, consistent transmission mechanism of money into the economy. It also implies a consistent distribution of political power between the financial sector and the real sector of the economy. Of course, this is not the case. Yet, these assumptions spawn a nearly unalloyed affection for the libertine conduct of the financial sector that is dangerously inappropriate.

His failure to understand that the power relationship between the financial sector and real sector could become inverted and, thus, dysfunctional was a flaw in the architecture of his theories. This flaw facilitated the very derangement of the link between the two sectors of the economy as well as contributed to a more conflictive change in finance's relationship with government and labor.

The status of the underling real economy is a prime determinant of whether the accordion of money supply is pushed inward or pulled outward and of whether the push or pull will be effective. As between the real economy and money supply, a classic causal explanation may be inapplicable. The relationship is too intertwined and multi-dimensional for such linearity. The best we can say that a long-term correlation exists. Consequently, Friedman erred in trying to turn a typical cup into a holy grail. Nevertheless, theories Friedman rendered have improved the quality of monetary policy. For example, he correctly stated the Fed decision to clip monetary supply after the 1929 stock market crash was the equivalent of tossing scalding ash into an oncoming wind. Yet, his was not a panacea. Friedman's contributions have helped the Fed perform its work in a more counter-cyclical and rational manner at times. Ironically, the demons Friedman unleashed would congregate in the financial sector to warp the 2008 economy in such a way as to provide the Fed its steepest challenge since the Great Depression. The intellectual tools Friedman refined would help the Fed better do

its job. The changes to the economy that Friedman's work promoted would make that job nigh impossible.

Policies enacted in the late 1960s and early 1970s would provide the political impetus to translate Friedman's money-centered theories into active, viral financialism. Primarily, the errors of President Lyndon Johnson's administration swung the American political economy toward conservatism. A decisive, often inventive senate leader, Johnson proved to be a hollow, insecure chief executive. His conduct of the Vietnam War was a textbook example of executive folly. It constituted a proverbial warning to those leaders who make strategic national security concerns subservient to temporary domestic political considerations. Johnson's record on the domestic economic front was little better. Johnson likely suffered from presidential envy. He wanted to outdo Roosevelt. However, greatness comes at destiny's call, not as we dream.

Seeking to rival Roosevelt's New Deal, Johnson put forth an ambitious host of domestic social programs under the grand rubric, "the Great Society." Most of these programs were beneficial, some brilliant. Johnson deserved credit for being more socially progressive than his political antecedents indicated. In terms of the economic logic of his policies, however, he deserved the pillory. His administration misread the lessons of the Roosevelt years. During the Great Depression, Roosevelt launched massive social programs. He attempted to compensate for collapsed private-sector demand through this significant increase in government demand and spending. The industrial production required by the World War would be the final ingredient in the recipe for full national economic recovery. Roosevelt's expansionary policies were counter-cyclical measures intended to remedy dyspeptic aggregate demand. By augmenting demand, he would pull the economy from the grips of deflation. Regardless of whether one believed in the overall efficacy of the approach, it would be hard to argue that the foundation of Roosevelt's measures did not about some recognizable school of

economic thought. Johnson's behavior did not merit the same defense.

During Johnson's tenure, America still rode near the crest of post-war prosperity. The slide in America's relative productive capacity had begun but was so slight as to be imperceptible to all but a small, prescient minority. The American economy was strong and running at enviable capacity. Americans were courting the dream that everyone could be middle class and poverty could be vanquished. This was vintage nonsense that sober leaders should never imbibe. Belief in fantasies should be left to schoolchildren and filmmakers. Fantasy has no legitimate claim to walking the halls of governance. Leaders who chase gossamer hope beyond the grasp of the mortal hand ultimately trample the reasonable aspirations of their people.

From the standpoint of pure economic logic, Johnson's default position should have been contractive fiscal policy. However, there is no such thing as pure economic logic. Political subjectivity and preference exert a force stronger than objective economic numbers. The American political economy provided Johnson sufficient leeway to prosecute the war against communism in Southeast Asia or to fight the war against poverty in South Central Los Angeles. However, it did not give him the latitude to do both. Unlike WWII, which helped pull America out of depression by deploying its idle capacity, the Vietnam War would have the opposite effect. America was already moving toward inflation. War expenditure accelerated the trend. Instead of waking a sleeping economy, war expenditures would cause a fast moving economy to lose balance.

Too insecure to select one option—war or social reform—and yet as vainglorious as a strutting peacock, Johnson lunged headlong into both. He would not fully achieve either. In travelling two roads at the same time, he intensified the inflationary upswing of the business cycle, instead of moderating it. This consigned the nation to unneeded spending and inflation. It led to his political ruin. It also

put Keynesian economics on the protracted defensive for the last 40 years. The policy legacy Roosevelt built, Johnson partially buried under the rubble of his warped policies. Instead of becoming the second Roosevelt, Johnson became the inverted image of Herbert Hoover. Hoover did too little remedial work in the face of sheer economic calamity. Johnson did too much damaging spending at a time of still solid prosperity. As such, he paved the way for conservatism and financialism to come to Washington as rescuers of the public weal.

The social strife and economic overheating from the Vietnam War and high domestic spending opened a channel of political vulnerability that conservatives exploited with acuity. There was a sense that Johnson had allowed the nation to spin out of control and too far leftward. Although Keynes would have been appalled by Johnson's imprecision and lack of direction, conservatives stamped Keynes' name on Johnson's measures as if the economist had authored them himself. Sadly, the interred Keynes had no way of defending his name. What Johnson did was not Keynesian. If so, it was an attempt to honor Keynesian philosophy by the gross breach of it. One of Johnson's tragedies is that of timing. Had he been president when America jettisoned the gold standard, the effects of his actions would have been muted. Ironically, Johnson's missteps would force the nation to replace the gold standard with fiat money.

The 1968 election of Richard Nixon ended the liberal social decade, ushering in an ascendance of flinty and angry, mean-spirited conservatism that has yet to recede. The Great Society would be halted in its tracks and national economic policy would assume monetarist coloration as the years went by. Due to Johnson's spendthrift, inflation overheated the economy. Although the economy ran too hot due mainly to excessive government expenditure, America eventually noticed it was losing ground internationally. The post-war recoveries of the European and Japanese economies were maturing. These nations were reducing that vast differential that had existed since the war's end. The start of

America's relative decline, coupled with Johnson's fiscal overindulgence, placed America in an untenable position regarding financial outflows. Experiencing serious deficits, America fell into an uncustomary defensive position. It strained to maintain its exchange rate. America was depleting its gold reserves to retain parity.

In 1971, the "Nixon Shock" came, taking America and the rest of world off the gold-backed standard. This led to a major amendment of the international financial system. The gold-backed standard was replaced by fiat money. Henceforth, a nation's money supply would not be constrained by the nation's gold holdings but by policymakers' level of regard or aversion to the printing press. The value of the currency would be determined by the health of the underlying economy. Jettisoning the gold standard had been a longstanding Friedman recommendation. Its consequences would not be limited just to the immediate alleviation of pressure on gold reserves. Shorn of the strictures of the gold standard and if used wisely, the fiat money system could promote fuller employment than the gold standard ever did. If used imprudently, the system would accelerate the drive toward financialism. We know what happened.

Governments were free to print money based on reason or whim. Most governments would do both. Currency exchange rates were allowed to float against each other. Fiat money and floating exchange rates created unprecedented avenues for currency and financial speculation nonexistent in the fixed rate currency regime. This new avenue for speculative profiteering bolstered financialism's ascendance. Fiat money also created a sense that money was limitless in the short term. This sense of power would fuel the economy and investment by spurring risk-taking. It would ultimately become such that risk-taking and debt accumulation seemed to be almost without risk. However, only a few people can be high risk-taking speculators if an economy is to maintain even keel. To work equitably, the fiat system required a commendable decree of restraint. The lack of governmental and investor self-restraint meant that the financial system would bloat because it would be littered by

undue speculative activity. Growth of international banks and multinational corporations provided eager conduits for new genres of speculation. These developments helped give financialism its destructive energy and momentum. Legitimization of the speculative mentality produced significant change in aggregate economic conduct and ultimately accelerated the process of financialism. Traditional business investment was long term. Generations ago, the majority of those who invested in a business had some direct connection with the product or service involved. Either the investor was connected to the business or had a belief in the long-term profitability of the firm. The investment horizon was decidedly longer than what currently exists.

Today, the investor's tie to a company or its product is tenuous. All concern has shifted to maximizing the investor's short-term rate of return. Investment money is constantly chasing the minutest differences in rates of return. This chase compounds the belief that the quality and utility of the underlying product, and of the entire productive sector, are of secondary consequence. Squeezing the marginal dollar from an investment trumps all concerns, including productivity, employment, and the overall social or economic benefit. That this chase can injure the overall health of the economy seems not to disturb the race's participants. They are midnight treasure hunters searching for bounty in a graveyard. They assume the hole they created leads to a trove. Only when they fall in, do they realize they blindly grope in their own graves.

As the financial sector and its firms became a larger component of the national economy, the firms' appetites for money corresponded with this growth. They needed to dip their snouts into larger pools of liquidity in order to maintain high profits. During this period, the financial sector came to appeal to the middle class to invest in the stock market and financial industry. Everyman could invest as the wealthy did. Anyone could become rich; the common person could become a back-porch, rocking-chair, and station-wagon Rockefeller. This bunkum appealed to the aspect of American

culture that exalts upward mobility. However, the allure was not the real thing. This apparent democratization of investment was a subtle dupe that did not serve the middle class as advertised. It was an unwitting journey into economic self-effacement that undermined the middle class, while buoying the wealth of the financial specialists. The appeal to the middle class was never to enrich them but to pool their small sums of money into massive sums the large financial houses could use. Investment of these sums profited the wizards given custody of those pools. In retrospect, it was dangerously naïve to believe the financial sector cared one scintilla about the welfare of the average person as small investor. This was not a situation where both the small investor and the large investment manager would win.

Some middle-class investment was that of the single individual independently investing his modest savings according to his own choices, be they informed or ignorant. However, much of the middle-class investment converged into some type of pooled funds, mainly mutual funds or pensions established by employers. Mutual funds had been around since the early 19th century, yet were generally unfamiliar to most Americans before 1970. Their popularity soared after 1974 when the tax code was changed to favor individual retirement accounts. The change was exacted at the behest and for the benefit of a burgeoning financial sector. Middle class America was the medium for achieving an objective of which it was supremely unaware.[4]

Being ignorant of the financial sector's true motives, people accepted the investment structure offered them. The small investor was the dumb lamb trotting happily to the abattoir. By conceding to this investment structure, middle-class America was unwittingly making a down payment on its subsequent diminution. Few economic institutions have been ribbed with such irony. However, most Americans were, and remain, unaware of this malevolent twist.

While millions of Americans nominally were turned into investors, they had little say over how and where their money was invested. The funds were controlled by financial houses. These houses were supposed to be the agents of the pool of investors. This was not the case. The firms' interests were not to enhance the long-term position of the large pool of small investors. Maximizing the short-term profits of the firm was the first and only commandment for this was not Eden, Utopia or even old-fashioned America. It was Babylon and Gomorrah rolled into one. The fact that managing firms would not be paid a set and fixed fee but earned a percentage of the short-term returns on investment is not coincidental. The higher the return, the sweeter the management fee.[5] Thus, the funds did not behave like traditional long-term investments. The money had quick feet and darting eyes, always searching for the highest rate of return.

This dynamic changed the behavior of businesses needing the investment funds. Businesses came to spend as much time attracting investment as in making quality goods. To attract investment, businesses had to show the highest possible short-term profits. This was done in two basic ways. One was by increasing sales and revenue. The other was by cutting costs. The easiest way to cut costs was to reduce workers or suppress their wages. In no small way, the manner in which the financial sector placed the small investor's money into the field of play jeopardized the stable employment and wages the common person used to make his modest investments. In effect, the common person as investor worked against the interests of the common person as wage-earning laborer. This ended badly because what the average person gained from his investments was scant. He survived on his wages. Remove the wage, and he was no longer average. He was poor.

As financialism took root, investment increasingly remained in the financial sector. While overall investment grew, the percentage dedicated to the real sector dipped. This relative diminution made real-sector firms more desperate for money through either investment or savings. Their cost-cutting measures became more

severe with each passing year. Ruthless financialism influenced large banks and their lending to medium and small businesses. Banks increasingly directed their funds toward short-term financial speculation and away from real-sector businesses. These developments complicated small business's quest to obtain needed working capital. Financial firms and the biggest corporations avoided such liquidity crunches. With the Federal Reserve exercising lax monetary policy during much of the past quarter century, banks and big companies immersed themselves in cheap money.

Thus, a strong correlation existed between the rise of financialism and the weakening of labor and the middle class. Financialism instigated a subtle process of pauperizing and shifting money from the middle class to the financial houses. In effect, people invested yesterday so their neighbor could be unemployed tomorrow. Whatever miniscule gains won by the small investor were extinguished by the sluggishness in real wages over the past three decades. What took place was an elaborate recycling, causing a diminution of the middle class. The dividends earned on investment were but a fraction of the wages lost due to the economy losing its productive footing. Investing in these schemes proved to be an inclement trade-off. It would have been better for the minor investor and the overall economy to buy government bonds or take the family to a restaurant once a month. Yet, those who controlled and managed the funds reaped handsome rewards. The gains being made would help propel the financial sector into the position as the fast growing, most profitable and most powerful sector of an otherwise lukewarm economy.

In the past, whenever investment became too democratized, with too many people participating, the economy fell susceptible to an asset bubble as too many novice investors followed the worn path leading to fields already picked and depleted by more knowledgeable speculators. Within a relatively brief span, the discrepancy between the inflated value of the investment asset and its true value became apparent. Additional investment ceased and

prior investors offloaded their holdings in the inflated item. Boom and bust came relatively quickly. The painful correction served to give speculation a less than august name, discouraging speculative misconduct before it became institutionalized.

The present situation differs markedly. What is produced by modern equity and financial markets is a type of roaming, constantly shifting speculation. Because of the way modern investment markets are structured and due to modern technology, investors can discern the minutest differences in rates of return and shift their funds speedily to exploit these differences. Unknown to previous eras, this constant and rapid movement of funds creates such a constant, fast-moving volatility that it presents the illusion of stability. This phenomenon is like the motion of fan blades. If quick enough, the blades give the illusion of one solid piece. Only when the fan slows does the reality of space between the blades become evident. Because of the rapid movement of money, the financial system gives the appearance of stability and prosperity.

This "stable volatility" deludes people into believing the ongoing transformation of the economy will lead to durable prosperity. The longer the volatility continues without visible crash, the more it embeds speculative behavior into the economy. Speculation becomes institutionalized as the preferred mode of conduct. Consequently, behavior considered to be in bad taste 40 years ago is today considered prudent restraint. Moreover, institutionalization of speculation allows the financial sector to aggrandize power and make itself a more self-contained, if not unabashedly incestuous, system.

In past speculative eras, the speculation generally focused on investment in the real sector. This is not so today. The financial system has invented myriad new financial instruments dissimilar to anything that previously existed. These novel instruments have restructured the financial sector into a multi-layered edifice where

larger amounts of money never depart the financial sector for onward duty in the real economy.

Increasing amounts of money are invested in concatenations of these financial instruments that have scant connection to the real economy. Because the financial sector is engrossed in this incestuous investment, it is difficult to determine when an investment has severed its link to objective economic fundamentals. The very valuation of these new instruments is vague and subjective; it is more like astrology than astronomy. In such an environment, speculation has much a longer shelf life because there is no objective standard by which to judge asset values. The new longevity of speculative behavior enabled this behavior to become a legitimized, institutional norm in relatively short order.

The first private-sector mortgage backed security (MBS) was issued by Bank of America in 1978. After this primitive derivative, the advance toward financialism shifted from a pedestrian walk to a thoroughbred gallop. Appropriately, the watershed in creation of other exotic derivative financial instruments occurred during the Reagan administration. Interest rate swaps began in the early 1980s. This popular class of derivative was estimated to have a nominal value of over $300 trillion in 2009, representing half the global derivative market. Currency swap derivatives were invented contemporaneously. The first collateralized debt obligation (CDO) was issued by the brokerage firm Drexel Burnham in 1987. Aptly, Drexel Burnham exists no longer, but the weapon of financialism it created continues to toll the economy. These instruments were both the product and beneficiary of the Reagan and Bush administrations' ardent belief in monetarist and supply-side economics and the resultant push toward deregulation of the financial sector. Advocates of these instruments would hail them as innovations, making the financial system more efficient and robust. Their voices were the loud ones drowning out those of the skeptics who warned that instruments would make the financial system too self-indulgent to constitute a benefit to the overall economy.

To underestimate the importance of these derivatives is to yawn and slumber while Hades takes seat in one's lap. It is to fall asleep during the coming of a new age, albeit a dreadful one. While traditional forms of financial investment are directly linked to real-sector activity, these new instruments sever that normal connection. Most derivatives are essentially a financial investment in another financial investment. A derivative can be 1, 2, 10, or 20 transactions removed from an underlying asset or firm in the real sector. Consequently, the majority of these instruments do not contribute to the expansion of the real sector where labor and productive capital abide.

The push toward financialism had its strongest proponents in the Republican Party. When in office, the Democratic Party would not undo the work Republicans had authored. During the Clinton years, financial deregulation and innovation maintained its clip. In 1994, J.P. Morgan issued the first credit default swap derivative. More significantly, the Clinton administration repealed the Glass-Steagall Act. By preventing commercial banks from engaging in speculative proprietary investment, the Act remedied a major factor that led to the Great Depression. The Act helped cement the relative stability of the American financial system, making it an exemplar for much of the world. However, to the new generation of financial minds, the Act seemed like a straitjacket. They claimed the financial system was self-correcting. Regulation was not required because firms that acted unethically or imprudently would lose customers and be pushed from the marketplace for their transgressions. This sounded good. For the short term, it seemed to work; the overall economy and financial sector continued to expand for a time. Ultimately, this unalloyed faith in the purity of the market proved unfounded. The financial sector would abuse the wide latitude. Given the benefit of hindsight, the repeal of Glass-Steagall is the consequential error in what was otherwise the successful economic stewardship of the Clinton administration.

The fractional reserve banking system also promotes financialism Under this system, banks are not restricted to lending only the money they actually have on hand. They can lend multiples of the sums they hold. If a bank holds a dollar, it can lend nearly 10. It is as if money is created by magic. This mechanism provides a vast expansion of credit that helps the economy when used prudently. However, because loans are considered assets on bank balance sheets, the mechanism can be abused.

The fractional reserve system, coupled with the bloated valuations of the revolutionary new financial instruments, encouraged banks to go on an unprecedented lending spree during the past two decades. Banks reaped high profits as long as their loans appeared healthy and as long as heavily indebted borrowers could meet or rollover their repayment obligations. However, this heady condition did not last. The 2008 recession demonstrated the ultimate cruelty of institutionalized financial excess.

As if banks needed more help gorging themselves and turning each other into fatted calves, the rules on trading securities and financial instruments were relaxed as were regulations dealing with financial accounting. Instead of maintaining the degree of discipline and strict standards that were the hallmark of banking, the new laxity implicitly encouraged freewheeling practices that were unethical in past years. Traditional restrictions on interest rates and fees charged customers were dismantled over the years beginning in the early 1980s. With this, came the push tempting the American consumer to hold multiple credit cards and use them with abandon. Interest rates, considered improper usury a generation before, became standard fare. Banks swallowed enormous profits while the consumer braced a barrel of debt on his shoulder. Because the consumer could not continue to incur debt given his narrowing wage, such a condition was untenable in the long term. This dilemma did not unduly concern the banks. Financialism sees only the short term. Make your money today. Tomorrow will take care of

tomorrow. If you make enough money, you can buy tomorrow and postpone its consequences.

With the Glass-Steagall roadblock erased, the financial sector forged lustily ahead. Commercial banks and other financial houses merged operations. One firm could perform both traditional banking services as well as explore the far reaches of speculative investment. Armed with depositor funds, many banks plunged without restraint into the glaring unknown of speculative derivative investment. By the late 1990s, derivatives tied to real estate catalyzed the pennate ascendance of the financial system. Sadly, this Icarus, after melting its wings, landed on the economy as it fell to ground in 2008. The economy still carries the wounds of this collision.

Technological progress unfortunately has been misused to facilitate financialism Advances in computer science and communications have given the financial system a combination of breadth, velocity, and flexibility heretofore unknown. Funds now move at lightning speed, taking advantage of minute fluctuations or differences in price and rates of return. The way technology has been employed has exacerbated the divorce of investment and long-term economic consideration. Technology reinforced the narrowing of the investor's decisional horizon to the detriment of posterity. Investors now think in terms of days, hours, and minutes. While transient profits are had from this exercise, such a large volume of short-term yet consequential decisions undermines durable economic growth. This is the "virtual" invisible hand at work and the economic destruction wrought by this computerized version does injustice to Adam Smith's potentially benign description of its 18th-century forerunner.

We truly live in the age of virtual reality. People live in a world of symbols and images more than of tangible things and interpersonal relationships. Such a sublimated existence is not good because an economy is ultimately comprised of real people and their real need to avert material scarcity. Those who live too long in the space of

virtual reality come to a place where they can separate themselves from the real life consequences of their decisions. They care little for others and care less about the effects their decisions have beyond the cloistered environment of their ambition and greed. In the end, virtual reality is nothing but a euphemism for cold-hearted make-believe. While the financial wizards create this fantasyland for themselves, their collective misconduct constructs a genuine chamber of horrors for others. Moreover, they happily deploy American financial and political power, directly and through the international financial institutions, to spread financialism and its mindset across the globe.[6]

Systemic Effects of Financialism

The consequences of financialism are deep and disturbing. Capitalism created a dichotomy between labor and capital. The capitalist class included the financial sector as its junior partner. Capitalists clearly derived more benefit and pleasure from this construct than did labor. Read the novels of Charles Dickens; from its onset, capitalism exacted a cruel toll on the laborer. Yet, capitalism spurred a level of economic development and the creation of a large middle class. Although not a panacea, capitalism was better than its antecedent. Capitalism came about due to the convergence of money and technology. Capitalism is now being swept aside by a different confluence of the same two factors. Unfortunately, the broom doing the sweeping promises to be less beneficent than the system it discards.

Financialism has fissured the ranks of the capitalists. Today, the financial sector's primary objective is not the channeling of investment to the real sector. Finance has dethroned the king of the manor. The financial sector now concentrates on financing itself and in making its greatest profits from this internecine investment. Under capitalism, the financial sector was considered a necessary evil. Now, financialism looks at the real sector as the necessary evil.

Wherever financialism takes root, the impetus toward production erodes. When production wanes, employment ebbs by necessity. With labor weakened, demand for products thins. Companies in the real economy will streamline production and lower costs in proportion to the lower aggregate demand. This means further reduction of labor. This negative dynamic will continue to enervate the labor force and the real sector. Lower demand will cut somewhat the inflationary pressure on price levels. However, lower production output will help keep prices from actually deflating. Prices will rise slowly, but the rise in wages will be even more sluggish. While it may seem like inflation has been tamed, that impression would be false. Nominal inflation will reduce but real inflation will become integral to the new economic order. An incremental, yet consistent, real inflation means those who make their livelihood from wages and salaries in the real sector will lose ground, inch by inch, day by day. In a race between a tortoise and a stick, the tortoise is the sprinter. A structural differential will be established between the steady but small increase in prices and the near extinction of wage increases.

Financialism erodes the living standard of those who earn their wages from the real economy. The middle class will be forced to peer into the valley of bones. If it looks closely enough, it will notice the outline of its broken body. Small and medium-sized businesses are but extensions of the middle class. These businesses will fall to the same straitened condition. The mass of people will be swept into the impoverishing vortex, enthralled by a great pessimism. They will spend less and live more miserly. This saving will be an inutile attempt at protecting oneself from present adversity. It is akin to brandishing a toothpick to stem a hurricane.

A sample of this conduct occurred in mid-2010 when the ubiquitous retailer Wal-Mart slashed already low prices in an attempt to increase slumping sales. Prices were cut by more than 40 percent on numerous items. The store reasoned the lower prices would expand the volume of sales. They would make up in numbers

of transactions what was lost on the prices of individual items. What happened rebuffed Wal-Mart's expectations. People did not rush to take advantage of the deals. Customer traffic and sales volume remained static despite the price reduction. People did not buy more. They simply bought the same amount and pocketed the meager savings in contemplation of the next rainy day.

Successful capitalism requires a certain level of consumer confidence. Financialism undermines that confidence like an expanding sinkhole discomfits the foundation of the adjacent house.

More money will concentrate in fewer hands. Banks are setting record profits through high fees and through investment in various securities. Yet, they refrain from making the quanta of loans required to pull the real sector from lethargy. Meanwhile, the largest nonfinancial corporations take on the financialist airs of banks. These firms currently sit on a record amount of cash, over $2 trillion. They refuse to invest the funds in increased production since consumer demand for additional production is slack. Instead, a portion of these funds are employed in speculative endeavors more characteristic of the investment banks. Under true capitalism, banks served the corporations and their drive to make profit via production. The players' roles have been materially altered. Under financialism, the corporations do not necessarily see their identity tied to production. Profit from any source and in any way is the ultimate commandment of the modern financial house and large nonfinancial corporations.

Allied with the large corporations that enjoy vast dollar holdings, the denizens of the financial sector have become the architects of the new economy. Because they hold vast amounts of disposable funds, the rich and the super-rich will change the pattern of consumption and production in America. More luxury goods will be produced for the benefit of fewer people. Those who labor making these goods will be pushed, year by year, farther away from the financial ability to purchase products fashioned by their own hands. Yet an intrepid

few will try to emulate their more affluent fellow citizens. The struggling middle and working classes will be whipsawed. The crisis of their pocketbooks will ignite a crisis of identity.

In one instance, they will feel pressured to reduce spending. On the other extreme, they will feel the need to maintain self-esteem and respect by feebly mimicking the spending patterns of the affluent. Torn between imposed frugality and fake indulgence, the middle class will further divide. As previously stated, some will hunker down into the misery of suppressed consumption; they will live with the discontent that walking downhill backwards produces. Others will go for the false euphoria of spending what they do not have. They will crash into ruin. Many will attempt both, vacillating between the two opposites as if schizophrenic. The middle class was once the bedrock of the political economy. Under financialism, this bedrock will melt. Because of the severe disorientation, the middle class will become a receptacle for crackpot political and economic notions once the sole preserve of the social outer fringes. In such an environment, the poor and struggling have no fair chance. They will travail in steeper want and be relegated to the basement of motley existence.

Beyond the numbers and statistics, a vibrant economy requires that a balance be struck between transactional efficiency on one hand and the quality of the relationship between capital (including finance) and labor. While capitalism's balance favored the elites, there was a durable relationship fashioned between labor and capital. Labor knew it was on the short end but still thought something beneficial could be had. A good economy is grounded in such a social compact. Financialism wrecks this balance for one simple reason. The architects of financialism have little understanding of the relational aspects of the economy. They see the economy simply as an endless series of distinct, temporary transactions. While the financial wizards are making money, the society from which they derive their record profits frays. Everyone else will have the uneasy feeling of being duped and cheated as financialists crow about happy days being here again.

Worst, the financialists' seizure of the economy will be compounded by their greater control over politics and governance. As witnessed during the 2008 recession, the financial sector exerts greater power in Washington than any group. Although causing the crisis, banks were generously rewarded for their misconduct by receiving the largest outlay of government assistance in history. This represented an enormous redistribution of wealth from the working taxpayer to the financial elite. All the talk about the fear of creeping socialism was cynical misdirection. Financialism has become so powerful that government subsidization of the financial sector is a tenet of economic policy. Save for the car industry, no other industry can compel this extreme government support. Because of the funds at their disposal, the banks and large corporations have inordinate influence over public officeholders. Moreover, these firms control the popular media where most citizens get their news and develop their opinions. That most people believe the myth that the 2008 recession was caused by Blacks and other minorities entering the subprime mortgage market is an example of the inimical consequence of the great political and media power held by the financial sector.

Few politicians have the courage or independence to challenge the perquisites now claimed by that sector. The sector will soon reach a point where it may be impossible to enact measures bringing the sector under responsible control, measures forcing the sector to return to its role as active buttress of the real economy. If America stumbles past that point, the nation will remain a democracy in the superficial sense that it holds elections. However, the actual processes of governance will not be responsive to anything or anyone but moneyed interests. The nation will be in the hands of a new aristocracy. The country will run more like a 1950s corporatist South American state than the liberal democracy that epitomized the spirit of the country before that spirit was securitized and sold to the highest bidder.

The Nigerian Experience

Because financialism has American origins, it was necessary to spend more time on its evolution in America. The story of its establishment in Nigeria is equally important for this story foretells what could be the plight of Africa in the coming years. Much of what has been written above about financialism in America is translatable to Nigeria. However, it will be instructive to underscore those points distinctly Nigerian that abet the rise of financialism in that nation.

Nigeria never experienced the massive industrialization America enjoyed. America embraced financialism as a post-industrial state. Nigeria did so as a pre-industrial state. Because of its colonial history, the Nigerian economy was structured as an appendage of the European economy. Nigeria was to furnish raw material to the western economies and purchase manufactured goods from these sources. Nigeria gained independence through a process of political negotiation and not through categorical rejection of the colonial power and its structures. Consequently, the uneven economic relationship was never severed. Retention of this uneven coupling and the orientation that went with it made attempts to industrialize very difficult. Nigeria could not industrialize because it was not sufficiently nationalistic. It was proudly nationalistic in word and political posture. However, in economic decisions, it behaved as a colonist hoped a former colony would.

To a certain extent, Nigeria's leadership was too quickly beset by internal conflict to give the idea of industrialization the singular commitment needed to change the flight path of the economy. Nigeria did not enjoy the advantage of relative isolation the American economy knew during its formative 19th-century period. By dint of geography and modern technology, Nigeria was too close to more powerful economies to be able to grow at its own clip unmolested by the undue influence of these stronger hands. Its growth, or lack thereof, was influenced by the demands and actions of those larger economies. Some would define this situation as

neocolonialism. At the very least, it was a hard twist of fate for the fledgling nation.

Nigeria's economic mentality geared toward trade and the selling of raw materials to earn foreign exchange. With the introduction of highly profitable levels of oil production, this trader mentality became more pronounced. As significant revenue developed from this sector, consumption of foreign manufactured and luxury goods sprinted. The dependency on manufactured imports incited the addiction to foreign exchange in order to buy the desired imports. The nation's low degree of self-sufficiency created an insatiable thirst for foreign exchange. From this appetite for foreign exchange, it was but a small step to conclude that money was the source of wealth, instead of realising that wealth was the source of money.

The evolution of Nigeria's government also contributed to financialism. Had the nation remained in the hands of civilians, there might have been a chance for the emergence of an Alexander Hamilton-like figure laying the intellectual underpinnings and practical groundwork for a policy of industrialization. Instead, the nation fell into the hands of military leaders with scant understanding of economics or of the ingredients necessary to push the nation along the critical path of development. Militarist economics was vaguely socialist mainly because that line of thought was fashionable at the time. It had little to do with a deep comprehension of socialism's or capitalism's relative merits and drawbacks. To their chagrin, most Nigerians were quickly to discover that their uniformed leaders were not enamored with socialism because of its egalitarian aspects. The generals adored the state control of the economy that socialism implied.

Military rule would stunt the growth of capitalism and of industrialization without bringing any of the benefits of socialism. Statist planning and programs were initiated. As in other nations, the effectiveness of these centralized attempts died in the womb of their conception. Moreover, the military sought to control too much. Any

choice between maintaining order, on one hand, or allowing the freedom and creativity to spark economic growth, on the other, was resolved in favor of the former. The military men did not understand the processes of genuine wealth creation and were adverse to these processes. They were more interested in controlling things than in promoting prosperity. Any avenue of economic growth they could not control, they crushed. The economy became too much of a political weapon, a mechanism of enforcement of state power. This environment also contributed to shift people away from productive enterprise and toward the acquisition of money through avenues of government patronage.

With manufacturing at a minimum, the most attractive aspects of the economy became oil, trading, and banking. All three fostered financialism. Much has been made of the resource curse in Nigeria and other nations. Many have come to believe that an endowment of natural resources is a hex because so many nations endowed with resources have experienced corruption and other socioeconomic problems. However, there is a more plausible, less mystical explanation that does not depend on the occult. To believe the resource is inherently a problem would be to consign those nations to an inescapably sad fate. Such a conclusion is unwisely deterministic. It is also incorrect. The trouble is not with the resource. The trouble is with us. Some people and nations do not understand how to use the funds gained from the resource. Having resources is good. For every nation that has run into trouble associated with the extraction of national resources, there are others that have developed because of the same resources. Moreover, nations without resources generally fare worse.

Nations that already have significant industrial capacity or adroitly use the funds to help develop industry are not visited by any curse due to the natural resources they have. The secret is not to see the funds as wealth itself, but as a tool to increase investment that leads to the production of wealth as well as the promotion of employment. The wise nation uses the funds from the extractive

venture to build an industrial capacity so that the nation will no longer be reliant on that extractive industry. Trouble comes when the money is viewed as the final objective. At that point, because its holds believe they have no other economic duty to honor, the money is spent and used unwisely. This distorts the economy. In Nigeria, a class of super-rich rentiers, comprised mostly of government officials with access to the funds from oil, holds sway over the economy. They spend this money primarily on luxuriant consumption and not as investment to activate the idle productive capacity of the nation. Their spending patterns undermine domestic industry and encourage over reliance on imports.

Those involved in the trading sector also promote financialism. By trading, we mean the import sector. While performing needed services to some degree, this activity also reinforces the mentality that money is the final objective. Import trading discourages domestic manufacturing. In essence, traders make money but do not add much value to the actual product. Their value rests in bringing distant items closely to the consumer. They give the consumer access to items they otherwise would not have. However, such trading depresses manufacturing and places a high premium on acquisition of foreign currency. These aspects help affirm the delusion that money is the quintessence of prosperity.

Nigerian banks have been the prime culprit in the establishment of financialism. Traditionally, most Nigerian banks were not focused on providing normal commercial services, such as business loans and consumer loans. Their forte was currency arbitrage. They made their profits by exploiting the difference between the official and parallel market exchange rates. They would make hefty sums buying dollars at the lower official rate, only to run across the street and sell the same dollars at the higher unofficial rate. Because large sums could be quickly and safely made, banks were not keen to sink their money into traditional loans where returns were less but the uncertainty of loss was more. This situation meant that banks were not friendly to the productive sector. Nigerian banks never saw their

primary role as channeling funds into real-sector investment. The banks saw themselves primarily as speculative enterprises. They started with the rentier mentality that money is to be used, not to create wealth, but to garner more money. Sadly, most banks have never abandoned this mentality that is the hallmark of financialism.

When banks were forced to merge and consolidate by 2006, the financialist mentality of the banking system was only compounded. By then, the American banking system was at its speculative heyday. Already speculative by nature, the Nigerian financial sector saw the transformation of the American system as encouragement to dive further into the murk. Nigerian banks began augmenting their own speculative practices with those witnessed in the American and global financial systems. As shown in chapter two, the Nigerian banking system became a cauldron of reckless profiteering. During this period and despite the obvious recklessness exhibited, the financial system sector was hailed as the engine of the overall economy. Senior government figures echoed this refrain as banks published ersatz statements of ersatz profits. As the banks went, so went the economy. Financialism became official policy. While the 2008 financial and stock market crisis has doused ardor of this conviction, it remains the dominant mindset of government and the public. As long as it retains this injurious creed, Nigeria will tether itself to financialism's mostly rueful aspects—weak manufacturing, high unemployment, gross income inequality, and erratic cycles of speculative highs and lows.

A Brief Morality Play

What follows is a tale of a man who did not understand his proper role. As such, he made a mess of things.

The Players:

1. Owner of the Manor.....Productive Capitalism

2. His Son.....The Real Sector

3. Uriah's Wife.....The Financial Sector

Last, as well as least:

4. Uriah..... Fiendish Financialism

The owner of the great keep motioned to his new chief steward to come close. The man who managed the home and the rest of the staff for so many years had died suddenly. He was lost to a mysterious ailment that sapped life from him by the hour. He took ill a few days after his brother had come to visit him. Now he was dead.

The dead man's brother nearly ran out of his shoes as he approached the owner. The anxious obsequiousness betrayed him as a most recent hire. The man scrambled toward the owner. In jest, the owner bade that he slow his pace lest he have a fretful encounter with the nearest wall. The other staff members laughed. Furtively glancing at those who chuckled, the new steward took mental note, but said nothing. He smiled a forced smile. The others took his expression as that of a good-natured man. They laughed the more heartily because they thought they had a new friend. He dipped his head ever so slightly, but it was not the gentle nod of friendship. It was the nod of one keeping score of perceived insults. The gulf separating the vicinal from the vindictive is narrow indeed.

As the steward stopped before him, the kind owner said, "Dear Uriah, my friend. My heart aches from the loss of your brother. I cannot believe he is departed from us. Such a part of this household was he. I dare say he was more than the head of the staff. He was a brother to all. He was the spirit of this place. This manor was lively because he made it so. He was the best of us all. We shall miss him, but we must carry on. He often spoke of his twin brother, and I can see why. He would say that compared to his brother, he was the lesser. He never lied or exaggerated. Thus, I find his endorsement

both assuring yet hard to believe because there was no finer human being that I have known than he.

You look so like him. When I see you, I see him. I feel comforted because I know this great keep will be safe in your hands. I thank you for agreeing to stay and to be to me what your brother was. He directed this household. In honor of him, I give you the same status in this household."

Soon, Uriah came to know everything about the house and its kind master. Uriah brought his wife and son to live with him. Uriah proved to be able and energetic. He ran the place efficiently and well. The master was pleased and quickly gave Uriah his utmost confidence. There was no place in the keep where Uriah could not go.

One day, the master could not find the key to the safe containing his important documents. He searched madly about in sweaty panic. The entire household was set on edge. The large estate was scoured. Still no sign of the precious keys. Two days later, Uriah found the keys hidden inside the pillow of the cook whom everyone knew to take liberties with the kitchen larder. Stammering that he did not understand why he was being so harshly treated for pinching an occasional chicken leg, the perplexed cook was led away manacled. All thought him guilty and shook their heads at his ugly repayment of his master's fair treatment. Uriah's wife would become the cook. After this, the master would take Uriah into his closest confidence and talk to him as he did with the departed brother, even regarding the master's most intimate business.

All was well. Then the master's son became sickly. The once robust child steadily became gaunt and weakened. The boy lost weight and was visited by serial infection and ailments. Uriah volunteered to take the boy to the physician. They returned with bottles of potions and remedies which the boy took religiously at Uriah's caring hand. Yet, the boy's condition worsened.

Reaching his wit's end because of his son's dilapidation, the master took the boy to a renowned specialist in another city. Uriah, his plump wife, and his healthy son waved their hearty farewells from the portico of the great mansion as the master and his coughing, emaciated son departed.

After several days of medical tests, the father was anxious for a diagnosis. He pressed the specialist to tell him what was wrong.

The doctor finally told the father, "All I can recommend for the boy is to feed him a lot of chicken soup and hope for the best."

"What kind of quack are you? I come thousands of miles with my boy and all you can say is 'chicken soup.' You are supposed to be a specialist. You have been paid a lot of money to diagnose what is wrong with my son, yet all you can do is talk like someone's grandmother. If you can't figure out what is happening, tell me so that I can get someone who can. You are not the only doctor in the world you know."

"I don't care who you go to see. Any decent physician will tell you the same as I did."

"You have not told me anything. You sound like a cook."

"Precisely! The boy does not need to be sitting in a doctor's office. He needs to be sitting at the dining table or better yet in the kitchen so that he can get the food straight from the pot. Look, sir. If you would use the same energy and resources in feeding the boy that you have expended in bringing him to me, then he would be ox-strong. I don't know what game you're playing, but you shouldn't toy with your son's life. In the midst of all you have, the boy starves. This is a sad, sad joke I tell you."

"What the hell are you talking about? My son is sick. I bring him to you because you were highly recommended. Then you talk about

chicken soup and blast me for joking. You are the joke. Don't make me lose my patience this day. Your accusations, though indirect, are heavy and make me want to come to blows. Be careful with what you say and listen more carefully to my words. I am a gentleman, but when it comes to my son I can be a beast to the most feral beast. Play not with my emotions. I ask you once more, what is wrong with my boy. Don't play and dance. Tell me plainly and correctly. Be right in what you say, or I shall teach you today what an angry man can do, and you will forever rue the moment you became a doctor."

"You frighten me not. I am a doctor and one of the best. I am neither a jester who jumps about nor a coward who cowers. I am not to be pushed to the wall like an old chair. Your threats may work on others, but they are as a bull snorting in a storm to me. You threaten me, yet you are the one with questions to answer. You are a rich man, but your son looks like the child of a beggar. Doesn't that seem strange and wicked to you? Perhaps you are the one captivated by sadistic humor, or perhaps the young man did something you did not like so you imposed one of your threats upon him. I don't know, and I don't care. Whatever the lad did, it cannot be so bad that you would punish him this severely. Stop it. It is time to feed the boy. Feed your son, my good man!"

"What do you mean? I love my son. He can have anything he wants."

"Except food it seems! There is nothing wrong with this boy except that he is as malnourished as an urchin of the poorest streets in the meanest city. He needs to eat. He needs food, dear sir."

"What, I don't understand. He has the best of everything and the best of care. I don't understand. There is nothing I would deny my boy. He can have all my riches, and I would gladly live in the worst hovel just to keep him from having to sneeze. Why would I deny him a piece of chicken? Why?"

As he responded to the physician, the man's mind raced. The widower's head grew warm and thumped with the blood-rush of formidable anger. His beloved son to whom he had devoted himself was being treated like a pauper in his own home. Under his very roof, his boy was living the worst poverty. Uriah's wife was to feed him. While she acted as if she cared for him like a mother and fed him the best victuals, she was starving his son as if the boy were a prisoner of war. The more he thought, the less he knew about what had happened but the more he understood about the nature of those in whom he had entrusted his household. His body convulsed with twinges of nearly uncontrollable rage, progressively tempered by clever thoughts of how to right the wrong done to him and his son.

"Why? Why?" He asked. "Why would she do this to my boy? I trusted them with everything and denied nothing to them. I treated them like family. Yet, they turned my own flesh and blood into a beggar under my very nose. I have been a fool, a blind fool. But this fool is set to go on a rampage that will shake the very gates of hell," he pledged to himself. That evening he gave his son a sumptuous feast. The boy ate so much that he fell asleep at the table.

Instead of returning home, he and the boy stayed away several months. During that time, the young man had eaten and grown much stronger. After the boy had returned to full health, it was time to return home.

When they returned to the manor, the gates were barred and the attendants had all been changed. From the gate, he could see that his great house had gone unkempt. Things looked disheveled. Uriah finally appeared at the gate.

"Uriah, good to see you. Tell these men to let us in. We are starving and weary from our trek. Who are these men anyway? What has happened to my house? It looks dark and the grounds are untidy. What is wrong dear man?"

"Your house, your house!! Listen fool. This is not your house any more than the sky is your sky. Do the clouds also belong to you, you sad buffoon. This keep is not yours. You and your little nitwit have no place in it. Get away from my gate, you wretch. You are so stupid. Look at you. You have no idea what has happened. You own nothing and have nothing except that idiot son of yours. Everything you once had belongs to me, to me, your former servant. I am a servant no longer. This all belongs to me. Soon you will be begging me for a job. Get away before I call the constable to drag you from here," Uriah bellowed from the pit of his mean soul.

"Uriah, you have taken my house! Why? Is this how you repay my kindness? You steal what is mine and ridicule me in front of my son. I treated you like a..."

Uriah interrupted, "Like a servant. Well, I am no one's servant. Why did I do it? I did it because I could. There is nothing called kindness in this world. There is money, and there is poverty. You had money. Now you have poverty. See how kind that will be. I now have money. I can be kind to myself, and that is the best kindness of all. You gave me power of attorney, and I have used it as I saw fit. Everything that was once in your name is now in mine. Your world is now mine. Go and find a new world of your own." Uriah turned and walked back to the dimly lit house.

"Uriah, Uriah, my dear friend. You will soon learn something precious. By this time next week, you will learn the difference between having money and earning money. You will learn the difference between vindication and vileness. I take my leave now, but yours will be forced soon enough upon you."

Uriah turned and, in a taunting half smile bared his teeth like a sly hyena at his former master. The he resumed his walk back into the large, bleak manor.

The week passed.

Uriah went to the office of his largest creditor. His other creditors had all assembled there. Uriah pleaded with them to give him one more day to pay the overdue debts. There was money in the accounts, but the accounts had been frozen for reasons he did not know. However, he had been informed the accounts would be clear by tomorrow he pleaded. Falling on his knees, Uriah asked for a little patience, a little kindness.

"No one told you to mortgage the house. You did so of your own volition. You knew well the consequences of your actions. Yet, you took them. None of the gentlemen here assembled run charities for the errant rich or the overambitious poor. We lend money. We demand payment with interest. This is a simple thing. I don't see why a smart man like you cannot comprehend this simple fact. Anyway, did not you once say that 'there is nothing called kindness in this world? There is only money and poverty.' Well dear man it seems like you came from one only to return to it after a fleeting taste of the other," said the man seated behind the owner's desk.

"How did you know? I said, 'how did you know?' I... I... I don't understand."

"Apparently, there is a lot you do not understand. Hubris and cruelty do that to people. Permit me to introduce the person to whom all your debts are owed."

As the man said this, the door opened. It was the owner of the keep.

"Uriah, how art thou, old friend? You look a bit distressed."

"What is that beggar doing here," Uriah blurted.

"That is no way to greet an old friend. I am hurt, but I think I will recover. As for you, I am not so sure. Dear man, the debt you owe, you owe it to me," said the keep's true owner.

Uriah's head and eyes darted about like those of a rat chased into an unfamiliar corner.

"The mortgage you placed on the house is in his company's name. If he is a beggar then you are a beggar to a beggar!" said the owner of the office.

"I don't understand."

"Yes, yes, we covered that already. Stop being repetitious," the man retorted.

The owner interjected, "Dear Uriah, you were too clever for your own good. I have suspected you took the keys to steal the deed to the manor. That you would use the power of attorney to place the deed in your name was predictable and could be seen in your greedy eyes even before you put your sorry plan in motion. As for the house, you did not have the wherewithal to maintain it, but you never thought about this inescapable factor. You see, my good friend, I instructed the banks to hold all the accounts. What you did not know was that I had instructed the banks to disregard the power of attorney in which you had invested your hope. What you thought was yours never was.

Your scheme, the very key to your future became just a worthless shard of paper, almost as worthless as you are. You called me a wretch last week. Who is the wretch now? I told you the last we met that you would learn the distinction between having money and earning it. I trust that you are learning this lesson and learning it well. You kept me outside of the gate to prevent me entering my own home. Henceforth, you shall always be inside the gate but not that of any great manor but that of a strong prison. In effect, this cost me nothing. The money you borrowed from these men, I would have given you anyway to run the house and more besides. Meanwhile, the illusion the house was yours made you tend to it the best your warped mind could. Otherwise, you might have been tempted to destroy it or to sell off my belongings. You actually have done me a

favor. Because of this, I could forgive you. However, what you did to my son, I cannot forgive. For that, you must pay, and pay dearly. Call the chief constable. Have this man dragged away as he deserves."

With sweat heavy on his brow and rivulets of spittle escaping the corners of his mouth, Uriah pled as only the accursed can. "I don't know what happened, my kind and forgiving master. My mind, my mind. It is spinning. It hurts. My wife, it....it....it was my wife. It was my wife. She put these vile ideas in my head. She is evil and wicked. Evil I tell you. Evil Eve. Evil Eve, the deceiver. She beguiled me and into this awful snare I fell. I am Adam. I am Adam. As he did, I tumble like an innocent dupe. Don't blame me for my mind is not my own but is controlled by my personal witch. Master, have mercy. It was my wife, *it was not meeeeee! It was not meeeee.* It was not *meeeeeee, maaasssssterrr*!" Uriah screeched and writhed, grabbing and clutching every table and chair leg to impede his uniformed custodians as they pulled him across the floor and out of the room.

Between financialism and capitalism, there is little comparison. One can maintain the manor; the other cannot. Capitalism and the real sector can sustain a sophisticated economy. If the dominant role is ceded to financialism, the economy collapses. This play had a just outcome because its authors penned a happy conclusion. However, reality is not always so kind. A bleaker end is equally plausible. What happens in America and Nigeria in the next few years will determine if Uriah's theft of the great keep will stand or be overturned.

Chapter Eight

The Middle Kingdom Walks the Mercantilist Path

A warrior's most dependable weapon is his opponent's arrogance.

The global economy can be deemed capitalist in name only when its two largest economies practice something else. Financialism has become the lamp and lantern of the American political and economic elite. China has never been capitalist and has no present intention to be. China is the world's first unabashedly industrialized mercantilist power.

While America founders, China's size and increasing economic strength give it the appearance of virility. After roughly two centuries of scavenging in the alley, China's time to reoccupy the choicest seat appears to be imminent. Comparisons between America and China are inevitable, given this turning of history's table. What transpires is more than a quest to possess the world's largest economy. It is a contest between the American economic model and the Chinese model, where many other nations will seek to mimic the one that emerges in greater success. For a time, the victor will seem to be possessed of economic power unassailable. This will be a mirage, much the same mirage that has fooled rash chroniclers into believing the empires of their day were the greatest that would ever exist. However, history does not prefer static conclusions. The table keeps turning.

America cannot remain on top remaining as is. Financialism is unsustainable. If America continues this misbehavior, it will be haltered in a coat of recurrent financial crises. Conversely, China cannot attain and keep the top spot because much of its mercantilist success is based on exploiting the cracks in America's financialism. The competition between America and China for economic superiority is but a transition within a larger transition that will unfold more rapidly than we think. We exist in a time of great change whether prepared for it or not.

History Never Stops

Venerable China has determined that its future prosperity resides in modernizing its past economic model. While this turn backward might unsettle Western nations, it is not surprising. China has done what it normally does. It looked to the past to find the solution to a current problem. To transform itself from a backward agrarian state into a global force, China eschewed the unrestrained free-marketism touted by the Western world. The Chinese would borrow some aspects of modern capitalism but not embed capitalism indiscriminately. Their ancient culture maintains a different balance between the individual and the collective than the Western world does. This culture would not allow for the introduction of a brash, often discordant, individualism to take root. Chinese society has always valued harmony above uniqueness. Western capitalism and individualism extol the virtues of competition and debate. The West sees the need for clashes of ideas or of companies seeking the same profit by selling the same goods. Western minds view this tension and conflict as a means toward greater good. In its extreme, this way of thought becomes a brutal veering toward Social Darwinism. In the attempt to extol the individual, many people are crushed.

Placing greater emphasis on harmony and unity, the Chinese mind is also not the path to earthly utopia. However, its thorns and deficiencies are different from those of the Western world. The excessive competition of the West draws blood from those who lose

the contest and hardens the souls of those who win. Yet, the Chinese long march toward harmony and order can be stifling in its own way. It suffocates its victims and makes society's leaders nervous and adverse to individual expression. They come to see heresy in the slightest deviations and become too quick to throttle such deviations, deluding themselves that they are protecting the common good. In its extreme, this mindset will consign the collective to a lesser material state just to maintain strict order and stability. Trying to keep things from getting out of balance can prevent things from getting out at all. Imposed orderliness and artificial harmony beget stagnation. Because of his manifold imperfection, man's quest often produces the opposite of what he wants. In his search for balance, man can become distinctly unbalanced.

Western culture's propensity for linear thought created several fallacies that masqueraded as inexorable fact until China's recent emergence. The West, especially America, saw the fall of Soviet communism as vindication of the liberal democracy/market-oriented political economy. Some heralded this as the end of ideology and of the battle of ideas. No longer would there be contesting thought systems. In American minds, the challenge was distilled to determining which nations had the discipline to implement the winning liberal democratic formula. Those nations that wanted to develop would have to do so according to the American script. In reality, the fall of the Soviet Union did not represent the conclusion of the final ideological showdown. The Cold War was but the sequelae of World War II. The fall of the Soviet Union represented the last chapter of World War II, a full two score and six years after the Hitlerite collapse. With the World War era coming to this delayed end, the global community lurched into a period of uncertainty. That America assumed all important questions of economic ideology and practice had been asked and answered would lull the nation into a contented stupor where it would mistakenly see inimical economic trends as beneficent to its continued global prominence.

This fallacy was caused by Western parochialism. Too many people were captive to a bias of Western superiority. Although much of the world's population lived in Asia, the West saw itself as the place where history was made and the best ideas produced. Little thought was given to the possibility that other nations were so uncomfortable with Western dominance that they would challenge it. Fringe nihilistic elements in the Moslem world would attack the West's political and economic mastery by trying to mask their anomie as the call of Islam. Although their brand of lethal extremism found minimal converts and proved unsuccessful in changing the face of Islam, many true Moslems understood their political critique of the West. In Asia, the critique would be less violent, more effective, and would center on economics. In Africa, the Western model was accepted in part, ignored in part. The myopic, wastrel national leadership in most countries would not genuinely be attracted by any ideological magnet. For the most part, leaders were engrossed in self-aggrandizement. They embraced those parts of the Western economic model buttressing their hold on office. Otherwise, they diligently implemented the dictator's handbook.

Nations of Western Europe and the North Atlantic mistook the fall of Eastern European communism as signaling the West's permanent elevation. Cultural chauvinism disguised itself as objective political and economic philosophy. Two strong men carrying heavy loads embark on a long distance race. That one man tires and drops his load before reaching the finish line does not mean the other will endure to the end. That he reaches the finish does not insulate him from immediately being challenged to a different race by a third party. In the orbit of the political economy, there are perpetual failures but no permanent laurels. Today's victor must run tomorrow's race as if failure is biting at his heels. He is wise to do so because that is exactly where failure will be.

Liberal democratic capitalism outlasted Soviet communism. This never meant it would be accepted as the universal norm or that it would not subsequently become exhausted by its own internal

contradictions. History loves twists of irony more than it loves tidy conclusions. This case was no exception. Just as liberal capitalism was trumping Soviet communism, tumescent financialism began rotting capitalism from within. As Western capitalism was being heralded as the universal paragon, it was being transmogrified into an economic model inferior in production of material goods and less equitable than capitalism. Capitalists were so sure of their moral superiority and so fixated on beating communism that they failed to notice the mutation of their own doctrine and practice.

When President Clinton proclaimed that America was the indispensable nation, the statement was true. Never was it immutable, however. With each passing year, it would become less true, yet more often repeated by less talented political figures than he. If said today, it would be one part accurate, one part arrogant. Yet, most Americans proudly accepted it as unshakeable canon. That most Western scholars and intellectuals lent themselves to the same extravagance was a serious dereliction. Had they properly manned their intellectual stations, they could have called the hubris by its proper name. Perhaps they could have made evident the need for clearer thinking and, in doing so, called earlier attention to the structural flaws in the Western political economy. Whether they could have arrested the skein toward financialism will never be known; it will remain a perplexing "what if" because those who were supposed to preserve objectivity joined the band of merry folk following the blind piper into the fog.

This episode represents compelling evidence why skepticism is a healthy antidote to the foolishness of the herd. The moment some vain public figure hails an achievement as a permanent, glorious advance and the crowd rushes to fill the coliseum to cheer the boast, the wise should be ardently searching for the exit. The edifice of hollow gasconade will collapse under the weight of subsequent reality. This current period of severe financial miscues and misperceptions cautions us to view warily those scholars who willingly provide intellectual fodder for the positions of the moneyed

elite. If it profits them, these intellectuals will feast on the same biases that inform the boorish and dull. They serve their societies and paymasters just as other occupations do. They are not sages signaling what shall come but are merely stenographers recording what their paymasters have previously determined they should write. While some thinkers will answer the clarion of objectivity, most others deploy themselves in fashioning intellectual rationalizations for the prejudices of their society and its leaders.

During the 1990s, America pictured itself as along the road toward perfecting capitalism. The nation was deluded into thinking it had entered the space of capitalism's capitalism. It was as if it had discovered the Fountain of Economic Youth. However, it was not to be. The financial gimmickry of the past decades was as real as cosmetic surgery is real. It veiled but did not cure. Ultimately, what is unproductive will be revealed as such.

However, for a while, the happy ride seemed it might last forever. The elite did not understand the intoxicating velocity was because they had set everything in free fall. Instead, they thought they had bottled and corked the vagaries of the business cycle. Some foolishly bragged that recession and economic downturns were past, no longer a part of future discourse. Nothing but smooth seas, gentle winds, and champagne breakfasts waited ahead. This was the dominant American worldview, an embarrassing concoction of naiveté, barrel-chested swagger, and bottomless greed.

Given the longevity of the Chinese Empire and China's much longer historic perspective, the Chinese were not coaxed by exaggerations of the West's inherent economic superiority. While the Western mind is geared toward a linear thought process, its Chinese counterpart leans toward a cyclical perspective. This would have two important consequences. First, buttressed by historic fact, this thought process convinced the Chinese that Western talk about the "end of history" was error that tempted fate. From their own experience, the Chinese knew empires rise and fall, dark ages and

renaissances trade places. When a nation reaches its zenith, that is its moment of downward peril. That is the precise time when pride blinds the nation to the troubles it faces.

The Chinese understood success was a heady wine, causing its imbiber to mistake good fortune for invincibility. Instead of minimizing the flaws of imperfect success, the inexperienced person or nation thinks all is fine. Flaw becomes equated with virtue. Exactitude yields to excess. After a while, glory fades into mediocrity yet insists upon using its former name. The slide downward acquires a momentum that only a supreme moral exertion can halt. The Chinese have experienced this rise and fall several times in their history. They understand that man himself is a factory of paradoxes and contestation. As long as man exists, there will be harmony and conflict, war and love, hatred and peace. History will continue to unfold as ideals and civilizations blossom and wither. The Chinese came to view assertions of permanent American predominance with derision. They would see the American position as a cocky, adolescent response to one of human existence's unanswerable conundrums.

Second, the Chinese would not see the ongoing evolution of Western capitalism as the sole road to prosperity. Their own history taught them a different lesson. It also made them bitter. For example, until the late 18th and into the early 19th century, the Chinese economy was perhaps the world's largest. The Chinese had been involved in transoceanic trade for over a millennium. They had been economic and technological innovators. They were the first to give paper money widespread use. They invented gunpowder. Their maritime capabilities leading into the Age of Exploration were unrivalled. Due to their superior shipbuilding and exquisite navigational knowledge, a large Chinese flotilla probably circumnavigated the earth nearly a full century before Magellan's more modest undertaking. There is no culture more sublime than the Chinese. However, the Chinese became arrogant and insular.

They saw themselves as the best, and, thus, the impetus to improve died. Society grew stolid, and narcissistic.

While China wasted several centuries gazing into the mirror in self-admiration, the Industrial Revolution propelled a small island nation in the North Atlantic to the fore of global economic power. This shift did more than supplant China as the world's biggest economy. It changed the structure of global power. Having disparaged progress in order to hold to the fallacy that it was superior to all, China was basically defenseless when the heathen ships started pulling into port in the late 18th century. The great kingdom was subjugated by a nation a fraction of its size and with but a splinter of its rich cultural heritage. Nothing was more egregious than the Opium War (the First Anglo-Chinese War). Popular myth states the war was because of China's refusal to allow the British to sell Opium in China. Reality is more complicated. The first question is why would the British happen upon opium as the product to trade in China? Opium was not produced in England, and everyone knew the malign consequences of its abuse. The answer rests in the thorny issue of the balance of trade and currency flows.

China had restricted trade with foreign nations to select ports and only a few items. In effect, they established strong import restrictions that ran foul to British free-trade likings. The Chinese refused to open their markets to the sale of cheap British manufactured goods. However, the British were purchasing expensive Chinese tea by the shipload. A serious balance of payments problem ensued wherein the British were gaining mounds of tea at the costs of losing trunks of silver to China. Chinese economic policy was decidedly mercantilist and antithetical to free trade. Government policy was to earn hard currency by facilitating exports and limiting imports.

To break what they considered unfair trade practices, the British applied a remedy far more despicable than the wrong to be cured. Having already penetrated greater India, the British would obtain

large quantities of opium from India to sell in China. The British would reverse the negative trade balance and halt the adverse currency flow by effectively trading Indian opium, not British sterling, for Chinese tea. They would trade a harmful substance for a beneficial one. That India was nearby was fortuitous for the British as transportation costs would be low and large quantities could be easily moved. Of course, the British knew opium would undermine Chinese society. This fact encouraged the British, for they knew a weakened China would more easily yield to subsequent trade demands.

In the 1830s, opium flooded China; addiction became an enervating social problem with high economic costs, as China lost currency to the British traders. The Chinese banned the trade and tried to further regulate non-opium commerce. Not wanting to lose the advantage and currency wrought by the trade, the British ignored China's sovereign right to determine the welfare of its citizens. The British malefaction combined capitalism and racism at their worst. Just to gain hard currency, the British hoisted on the Chinese a narcotic it would not allow to be widely traded at home.

War ensued. After three years of fighting, superior British firepower subdued the Chinese in 1842. The Qing dynasty was forced to eat its pride, reopening its ports to the opium ships of Western nations. In 1850, the Taiping Rebellion erupted in part because of the loss of legitimacy the Qing dynasty suffered by agreeing to the pact ending the Opium War. The Rebellion was bloody, costing over 20 million lives. It was a foretaste of the misery China would suffer the next century. By 1856, a second Opium War erupted. Again, the Chinese lost and were forced to pay compensation and to grant wider trade concessions to Western nations. A glorious nation had been laid low by capitalist imperialism. Most Westerners have forgotten this inhumane chapter in the spread of 19th-century globalization. They consider it ancient history with no current relevance. The Chinese have not forgotten.

Given their civilization's span across several millennia, the Opium Wars are part of their modern history.

In constructing their emergence from two centuries of being more servant than master, the Chinese would draw lessons from this and other crossroads in their economic history. Prior to the Opium War, China had maintained a favorable trade balance with world's most advanced economy, the British. Because of a stringent import regime, China accumulated important reserves of silver in exchange for its export of tea. Those reserves could have served as the foundation for investment leading to a modern state and economy. If this process had not been interrupted by the Opium Wars and the resultant social and economic decline, China might have attained the beginning of industrial-age prosperity a full century prior to when it occurred. It would not have fallen victim to Japanese invasion and other depredations during the first half of the 20th century. Its history and that of the world would have been different.

The Chinese learned complete economic autarky was suppressive and enervating. It had the counterproductive effect of making the national economy susceptible to the deep penetration autarkic policies were formulated to prevent. Conversely, indiscriminate opening of markets to a superior economic power would deface national sovereignty and consign the economy to the subordinate role in an unequal relationship. Consequently, the Chinese concluded that an aggressive mercantilism was their best path forward. They would promote exports to gain currency. By suppressing consumption and imports, they could invest the surplus currency in building the economy and in increasing the geopolitical power of the nation. The Chinese probably learned important lessons from the American experience. America started the 19th century as a weak, war-bitten nation, inferior in political and economic terms to the nations of Western Europe. By the end of that century, America would be nearly the largest economy in the world. Uncle Sam did not achieve this rise by sheepish adherence to free-market orthodoxy.

The "American System" was not a model of free trade. American prosperity was built on high tariffs against European manufactured goods. America did not abandon its policy of relatively high barriers and trade restrictions until World War II brought a galactic shift in America's position in the world economy. At that moment, America understood its interest by pressing other, now weaker economies to open their markets to American affluence and power. Until that break, however, America was known as the most protectionist of the major economies. The underlying morale of the American tale was that a large but late blooming industrial state was wise to implement significant levels of protectionism to allow its industrial base to catch those that began the industrial race before it. The Chinese would embrace this principle in the 20th century because this concept harmonized with their mercantilist quiddity.

The general and his two closest aides stood atop the bluff watching the sun set on the valley and the enemy capital below. The soldiers busied themselves erecting the night's encampment. On the morrow, they would descend on the city below and the brief war would be decisively won. The mechanized army had crossed the vast plains into the heart of enemy territory at extraordinary speed. No army of that size had ever moved such a distance in so short a time. The advance should have taken six days. They performed it in two. After dismantling their foe's best divisions in battles along the border, all knew which side possessed superior force. In their blistering march on the doomed capital, the general and his effectives met only token resistance by scattered bands of enemy troops. Against this fierce avalanche of men and weaponry, the futile resistance was that of a wingless gnat against a tidal wave.

"Sir, isn't it surreal. The city looks so beautiful, like an exquisite crystal radiating light into the darkening sky. People are down there, sitting at dinner tables eating what may be their last meal yet with no clue that mortality gallops toward them. Some are laughing and frolicking, spilling wine, using their shirtsleeves to wipe the excess from their lips. Some are thinking what they shall do at work

tomorrow not knowing that tomorrow will bring the fruit of Armageddon to their doorstep. Some are at the cinema. Others are planning their weddings, while others plot their divorces. Some woman is pulling clothes from the dryer. Instead of doing his homework, her son is lying on his bed, thinking whether to ask the beautiful girl in his class to be his friend. All are going about the night like it was any other. The war came so fast and our advance faster. These fools have yet to grasp they are a nation at war. In fact, they are past war. They teeter on the edge of doom and know it not. I wonder even if their top officials know that we are here.

"Do they realize the weak extremity they now occupy? I doubt it. I wonder if anyone, without knowing why, has been gripped by a sense of swift yet heavy foreboding. Does anyone down there have the heaviness in their chest that comes with the air of imminent disaster? Do they feel the Angel of Death hovering? Tonight their lives are as they always were, full of mundane hopes and frustrations. In but a few hours and without an inkling, they will be transported from prosaic endeavor to the dark fires of the lowest hell," prophesied the senior aide.

"I care not for their thoughts, feelings, or their lives. These people are among the most hapless. They are dead yet know it not. They are victims of foolish leaders who dared risk combat against us, with our superiority of arms. All in that city is fodder for this magnificent war machine to consume. Tomorrow their houses shall be brought to ruin and their churches and mosques shall offer no solace or sanctuary. Their monuments shall be brought low. Everything will be made base. These people will see a great leveling; they will see the wonderful dread of lethal power, but none will live to tell of it. See these flowers around us. They are beautiful. Their scent is fine. It is the perfume of our victory. Tomorrow we shall smash beneath our boot this defenseless city and the feeble people inhabiting it," the stern general said, lowering his right foot upon a nearby flower, rubbing it forcefully into the ground until it was no longer a flower but the evidence of a flower's destruction.

"Sir, shall we set the long-range artillery into position tonight so that we can start shelling at first light?"

The General chuckled, "Have you become more eager for conquest than I, my dear colonel? Look at the city. Does it look like one preparing for defense or a population readying to flee? There are no fortifications and no signs of exodus. As you said, they are sipping wine and weeping at silly movies. There is no manhood in that place. They are all women. Their finest soldier is not fit to be our lowest mess cook. Let our men rest this night. They have marched far and long to arrive at the eve of great victory. There is nothing to concern ourselves. To be truthful, tomorrow will not be real war that requires real soldiering. It will be a slaughter like shooting pigs trapped in a pen. I take no great professional pleasure in this, but I am grimly determined to carry out our victory to its measure. Thus, our men need not exert themselves any more tonight. Soldiers need not prepare themselves against women and swine. We shall set the guns in the morning. It is better that the city has awakened and begins its day before we strike. With families scattered between work, home, and school, they will be more confused and vulnerable."

"Good point, sir. Yet, just in case, I think I should send scouts into the valley and also post guards along the camp perimeter."

"You have transformed from Genghis Khan to Mother Goose in a minute's span. Are you a warrior or a cringing schoolmarm? Tell me what can these people do to us? Nothing, except bore us to death. We have snapped their best units like dry twigs. I dare not waste my fine soldiers' energies by having them stand and stare into the night waiting for something that can never come. There is nothing so boring as watching the night watch you. All along this march, did we post sentries? No, we did not. Why? Because the enemy would not dare attack us in the midst of our strength. They have little muscle and no valor!" bellowed the agitated commander.

The colonel knew he was pressing his luck but asked again to post sentries.

"General, I would rest better if we deployed the sentries and kept the men at battle ready tonight. We are on the verge of greatness yet I feel... I feel...."

The General angled sharply face to face with his aide, then interrupted the colonel's stuttering premonition before it could be said, "You feel, you feel. Look, I did not hire you to be a clairvoyant. This is not a game of tea leaves and tarot cards. The only thing you should feel is the power of the steel in your hands and the only concern you should have is implementing my battle plan. You feel! You feel! Have the weak ways of the people below infected you? You feel! I will tell you what I feel. I feel that you bore me! If you want, you can deploy the new technology. Deploy the weapons detector around the perimeter. If anyone is foolish enough to cross into our camp carrying live ammo, they will be detected. This way I will not have to waste our soldiers' time listening to the sounds of bush rats and night owls. I bet you a year's wages the detector will not sound this night."

"But what if they try to sneak in with older weapons, with knives and swords and..."

"Will you quit! Quit I say! Enough is enough! These fools fled in panic before our approach. They cast aside their best weapons as if their hands were burned by them. Now you fear that, at the last moment, their nerves have been steeled to where they would sally into the camp of the best army ever assembled armed only with their great-grandfather's pitchfork and their mother's kitchen knife. No one fights with those things anymore, and these people are much too lame in spirit to commit such a brave suicide. Never, never show this type of weakness again, for it serves me no good purpose. We are soldiers, not weavers of fairy tales and worriers of things that cannot happen. Why can't you be more like the major? He talks when it

makes war sense, not to recite poetry or chirp like a beakless canary. Be careful or he shall replace you as my senior aide. Be off with you and locate your courage before the morning comes!" The general abruptly turned his back on the two men, walking briskly toward his tent.

"I am sorry he repulsed your suggestions. They were good and prudent, but I knew he would not approve. He has become a god unto himself," the major said.

"Think nothing of it. It is my job to recommend as I think best. However, he is the general. It is his army, and its victories are his, not mine. In that, he is a god. Now that the deity has spoken, it is for us mortals to abide."

"You are a good man," said the major.

"I am a soldier doing a soldier's duty. As a man, I am a fool and a guilty one, as all in this army are. Never has a war been brought against a neighbor for such a flimsy reason as this. We will win tomorrow, but our brutality will one day find us and exact its cruel payment. That is the clairvoyant talking again! Well, let us repair for the night. Yet, I feel a strange chill. Something unpleasant is at hand."

"Think nothing of it. It is probably the night air," offered the major as he stealthily wiped sweat from his brow.

Slowly, the camp went to sleep. Hours of quiet passed. The quiet was broken as sleep was at its deepest. A sudden and great commotion arose.

The camp had been overrun by a phalanx of rag-tag soldiers brandishing lances, spears, swords, and knives. They crossed the perimeter undetected. Armed like a medieval raiding party, they quickly subdued the finest modern army in their very beds. The

vaunted artillery pieces that were to shell the city in but few hours were in a jumbled heap at the valley floor.

The General rushed out of his tent. Before he could bark orders, a sharp blade touched his jugular. The eve of his great victory had quickly pirouetted into the night of the most wretched defeat ever visited upon a favored army by a beleaguered foe.

The dazed general was led to another tent. Inside that tent were the leaders of the daring raid. One man had his back to him. There was something about this man's carriage that struck the general as familiar, almost intimate. Finally, the man turned toward him. It was the major. The general slumped to the floor.

Regaining his senses, "How, why. You traitor! I will have you executed. You will be shot."

"Shut up, blowhard. Now it is time for me to do the talking. First, neither anyone nor I will be shot. As you can see, one can still accomplish a lot these days without discharging a weapon."

"You are the greatest traitor. Your name will go down in infamy with the worst."

"You really are an arrogant fool. I am not a traitor. I am a patriot. Have you forgotten where I was born? This land that you invade without reason is my homeland. I became a soldier in your army when we all allied to liberate our region from the colonial invaders many years ago. But that was then. The chief liberator turned itself into an immoral and now reckless conqueror. Being so arrogant, you could not conceive that I would still owe allegiance to this humble little nation and not to your great power.

You think everyone is as power mad as the rest of you. I was not and am not. No, I will not be remembered as anything except one who stayed true to his homeland. It is your name that will be recorded in the ledger of infamy. Your name will become a proverb

for military blunder. No general in the annals of military history has suffered such an inglorious, unwise defeat as this. Had you followed the simple suggestion of the noble colonel, me and mine would have been without hope and utterly vanquished. Now it is you who have lost your army and all. When news of this spreads, other lands will rise against yours. You dear general, in your arrogant stupidity, have done more to reduce your nation than any of its enemies could have done by force of arms."

"Where is the colonel?" The general whimpered while fighting to erase from his mind the enormity of this downfall.

"If you had looked a bit more attentively at the corpse you stepped over when you were brought here, you would know his location."

"What will you do with me?"

"Nothing much. You have helped us, so we feel no animosity toward you. However, given that you were the head of an invading army it would be awkward to give you the hero's treatment or offer a pretty homestead amongst us. Yet, we feel honor bound to give you the next best thing. We are returning you home forthwith. I am sure your fellow citizens and military colleagues will provide a welcome befitting your present achievement. Once apprised of your coming, they surely will arrange something special."

"I beg you. Kill me here and now. Let me not face such shame."

"I cannot kill you. I don't have that power. In case you don't understand the gravity of your circumstance, your name is already in the Grim Reaper's book. You are dead already."

At that moment, the first crack of dawn appeared. Perched somewhere along the bluff, a cockerel busily announced the arrival

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At that moment, the first crack of dawn appeared. Perched somewhere along the bluff, a cockerel busily announced the arrival

of a new day. The sleeping city below would awaken to this new day just as it had to all those that had come before it.

Today's China: An Old Economic Model with a Modern Twist

After centuries of being treated as a sickly ward of colonial powers, China emerged as its own nation when the communists won the civil war in 1949. China was a destitute nation, equidistant from its ancient grandeur as it was from its current prowess. Within ten years of taking control, Mao Zedong was tired of leading a poor, backward people. He announced the Great Leap Forward, an attempt to transform China from a survivalist agrarian state into an industrialized communist one. It was his economic version of the Long March. The latter was heroism on an epic scale. The former was a hemorrhaging disaster. He would employ a regime of forced collectivization to accomplish his economic goal. To increase agricultural output, he outlawed private farming in favor of agrarian collectives, price controls and food rationing. To spur industrialization, he advocated the concept of backyard furnaces. Mao directed the average peasant collective to make steel. This was misanthropic. To power the rickety furnaces, consumption of wood rose dramatically. Rash decimation of forests took place and took massive environmental toll. Where people were unlucky enough to have no access to timber, they were forced to burn furniture, doors, and other items. The metal produced was low quantity and poor quality. For all the expenditure and sacrifice, the end product had scant economic utility.

As economic theory, the Great Leap Forward was incontinent doggerel. In practice, it was a leap into the embrace of death. Mao's unbalanced notions constituted a heavy tax on his people. He apparently loved ideology more than he loved his followers. The people would pay a dear cost for this callous preference. Upon them, his economic policies visited a misery far greater than the ones from which he was rescuing them. While Mao still attracts hero worship from impractical radical intellectuals, the harms he committed were

no less destructive than the atrocities of Stalin and Hitler. His was communist economic gabble at its most lethal. It cast a meager peasantry into famine and destitution. In the end, over 20 million people died, with millions more left emaciated and broken by his lunatic policy. Mao had become a hero as he led his people through the crucible of war; in the end, he became an avatar of destruction as he dragged that same people through the lowest rungs of economic torture. Judging by their effect, his policies might as well have been passed to him at the tables of hell, for they bore the devil's fingerprint.

In retrospect, Mao lived too long behind the gun. Having gotten rid of foreign invaders and domestic political rivals through protracted war, he became wedded to the fight, believing anything could be accomplished by force of will. He saw everything in terms of conflict and believed he could wage war against economic fundamentals. He thought he could make the Chinese economy fly just because he wanted it to rise. Mao proved that the skills appropriate to executing guerilla war are of a different genre than those required to build national prosperity. Few men possess both sets. Although great, Mao was not one of them.

Mao died in 1976. By 1980, the pragmatic Deng Xiaoping began what can be termed the "Great Climb Out." The final ingredient to the complex admixture propelling China toward its current dynamism was not another episode of foreign imposition. After the years of economic flagellation, Chinese leaders would take a pragmatic assessment of the harm the nation was doing itself. It is much easier to endure the yoke others force you to wear, yet keep your moral constitution and hope intact, than it is to withstand the moral consequences of your own folly. The sense of injustice and retribution gained when suffering is imposed by others provides important sustenance when penury affords little else. However, when the millstone about your neck is one of your own devices, there is no justifiable indignation to sustain you. When your undoing is your own doing, there is no cry to be made. A sense of dread and

moral bankruptcy supplants the belief that justice owes you a debt. In such a circumstance, either you repent or descend headlong into the deep. China selected the path of repentance, and it would be economic repentance in a peculiarly Chinese way.

Deng and his cohort laid the foundation for the present dash toward prosperity. Their way was not capitalism though their system would observe the dictates of market forces, particularly those of labor costs, productivity, and supply and demand. Nor was it communism in the Marxist sense although some of the old organizational forms remained. What the Chinese economic ideology resembled more than any other was mercantilism. That China would shake Maoist economic inanity to embrace mercantilism is logical. Before the advent of capitalism, there was mercantilism. In both Europe and Asia, nations attempted to stockpile bullion believing that gold and silver were the objective. Amassing gold and silver through foreign trade was thought to make a nation wealthy and prosperous. Having a huge export surplus was considered virtuous.

While capitalism took hold of European nations to varying degrees, Asian soil was infertile to this new branch of economics. The Chinese were still practicing mercantilism when trade with the British became substantial. The Opium War was a direct result of China's successful accumulation of silver through trade with the British. At that time, the two nations were the first and second largest economies in the world. In a way, this seems a strange foreshadowing of the global struggle today.

Chinese economic ideology is a reclamation of the past; it is both an innovation and a throwback. Most policymakers and intellectuals from America and the West cannot see it for what it is because they have arrogantly concluded such a thing should not happen in this day and time. For them, resort to mercantilism is the equivalent of fighting a modern army with a pitchfork or a kitchen knife. Thus, much of the West mistakenly views China as a nation awkwardly, ignorantly groping for the path of capitalism. Although China is the

second largest economy and possesses the largest manufacturing sector in the world, these Westerners look paternalistically at China. They want to teach China how to become a better capitalist. They think China just does not quite understand the way things should be. They believe China plays petty games of stubbornness to mask its insecurity and inferiority. Cultural arrogance deceives them. China has no more intention of becoming capitalist than it does of returning to the status of a subdued nation.

The Chinese do not see virtue in mimicking the West. Far from acting jejune and petulant, the Chinese are masterfully exploiting Western vulnerabilities. Moreover, the Chinese have suffered as much as any nation and more than most in the past 200 years. Suffering always toughens its victim but does not necessarily make them sympathetic to the hardships of others. It can harden the heart. This is what has happened to the Chinese leadership. No nation knowingly sacrifices its well-being for the benefit of another. This rule is doubly applicable to the Chinese. They will not bat an eyelash or shed one tear whenever their climb to the top inflicts injury on other nations, be those nations high or humble. No nation, particularly those that have oppressed China in the past, should expect any softness from Beijing, for they will not get it. China's mercantilism is premeditated. If it imposes negative consequences on other nations, it is for those nations to protect themselves, not for China to stop its march forward. Unlike America, which convinced itself and tried to persuade other nations that it would lead the world to prosperity and peace, China suffers no liberal, universalist delusions. The Chinese are trying to make it to shore fast. All others had better swim for themselves.

The deeper irony is that the West is lecturing China to become something the West no longer is. While the West touts capitalism, its reality is an emergent financialism. This brings us to a second irony. If the West were more truly capitalist, China's great surge in the past few decades would have been difficult if not impossible. Western nations, particularly America, would have maintained greater vigil

over their industrial base and manufacturing prowess. They would not have grown so reliant on Chinese goods.

For the Chinese, economics and trade are not just about lessening the nation's material scarcity in absolute terms. They are also part of the calculation of how to improve China's relative position with regard to other nations, especially those that might threaten China. The Chinese are intent on closing any real or perceived power and wealth gaps between them and the West. In this objective, their economy is more a weapon than their armed forces. They have four interrelated goals: industrialization, export maximization, accumulation of money, and acquisition of political power and influence. No nation has industrialized as fast as China. Its coastal cities have become the factory towns of the 21st century. The next phase of growth, which has already begun, is to accelerate industrialization in the hinterlands. However, neither current industrial output levels nor the contemplated expansion is geared toward domestic consumption. It is predominately export driven. Wages have been suppressed to keep production costs low to make exports cheap. Despite the huge trade and capital account surplus, China purposefully suppresses the value of its currency to keep the price of exports low and attractive. Because of this policy, China has a trade surplus with the world. At roughly $2 trillion, China enjoys the world's largest foreign currency and has invested over $800 billion in American treasury bonds.[1]

China could not have pursued this approach if the central government did not direct the economy. Making hash of the free market's disdain for government interference, the Chinese government controls and suborns many of the nation's large corporations. Government structures and plans the evolution of the economy by dictating the industries that will receive its help with financing, investment, and research. In effect, the nation has an industrial policy authored and funded by the government. This gives Chinese corporations a significant advantage over their Western counterparts that are slavishly driven to maximize short-term

profits. Because of government succor, Chinese companies have a more expansive horizon. They are not thralls of the short term. They prefer to gain a controlling share of a given market. After gaining market share, they can recoup funds expended to achieve that objective as well as convert their commanding market share into durable profits since they have eroded their competition. More than any Western company, Chinese firms are more willing to incur short-term loss to position themselves for future profits. That China has succeeded with this model has global ramifications. China's return to mercantilism means roughly 20 percent of the world's population eschews capitalism as a matter of conscious ideology.

Because of the rapid growth of its economy, China's romance with mercantilism has an even more profound effect than that indicated by its large population. Many other nations contemplate whether the Chinese method is the way for them. China's success threatens to revise the global economy, rewriting the rules by which it operates. Over the past two decades, America has run massive deficits to pay for products from China that America once made itself. One hundred and forty years ago, America was roughly in the place China now occupies. During this period, many European nations faltered economically and suffered through the "Long Depression" because they could not compete against the cheap exports produced by the strapping young nation on the western shores of the Atlantic.

Change in that prior era was brought about by America perfecting the capitalist system of production, albeit with a pinch of pseudo-mercantilist trade policy. Today, China's success comes from rebelling against a capitalist system taken over by financialism. China's success is that of a person who drives his car on the sidewalk to avoid a traffic jam. This tactic works as long as others remain obediently on the road. Once a critical number of people behave in like manner, the tactic loses effectiveness. If more nations practiced mercantilism, the less effective the practice would become. Capitalism can form the basis of a long-term global economic system

particularly if that capitalism is adequately regulated to alleviate its imbalances. Mercantilism is too opportunistic to be the guiding principle for an entire system.

The main tenet of the mercantilist creed is to acquire more money than the next person; it is not primarily concerned with building aggregate wealth or lessening aggregate scarcity. In this aspect, it resembles financialism. However, it differs importantly from financialism. Financialism is concerned with maximizing individual accumulation of money; government is seen as an obstacle. Mercantilism focuses on monetary accumulation at the national level; government's hand in the economy is active and essential. Financialism seeks to make the private financial sector the master of the economy. The private firm, not the government, is the catalyst of all. Mercantilism makes government paramount. Both are unsustainable models of genuine economic growth, but the flaws have different timelines and arise from different factors.

Financialism is internally inconsistent. Its inner contradictions lead to collapse from within. Mercantilism's main problem is not what it does to China but what it does to China's trading partners. Eventually, it turns trading partners into chronic trade deficit nations. The other nations, in turn, must eventually curtail trade in order to cure their burgeoning deficits. Given the vast array of potential partners, China can engage in mercantilist practice for a relatively long time before exhausting its partners. Nations that practice financialism are open prey to the mercantilist who supplies to the financialist an increasing percentage of the manufactured goods the financialist consumes. As such, the financialist is a friend to the mercantilist and an enemy to himself; however, the mercantilist is never an ally of the financialist. The more the financialist becomes dependent on the mercantilist for tangible goods, the more the mercantilist will alter the terms of trade to extract the maximum from the other party. Thus, mercantilism is a form of economics that tilts the balance more steeply toward conflict than cooperation.

Against this backdrop, the commonsensical view that maximizing one's monetary holdings by exporting more while importing less may be prudent and beneficial when limited to an individual nation. It becomes detrimental when the entire system functions by this motive. It is another way of taking too much water from the communal well. To stockpile money, a nation must export more than it imports. Yet, every state cannot be a net exporter. For one state to enjoy a surplus, another must hold a mirror deficit. This law is irrefutable. In a mercantilist system, states seek to promote exports while controlling imports and currency outflows. As more states ply this route, trade has to shrink because one nation's imports are another's exports. The less one nation imports, the less another exports. The less one exports, the more the nation will further reduce imports, hoping to maintain its favorable trade differential. This creates a negative process where nations refuse the goods of other nations. Global trade will truncate. In turn, output will drop as aggregate international demand falls. The world economy becomes a "beggar thy neighbor" slum. This is what happened during the tariff wars of the Great Depression. These unpalatable outcomes affirm the favorability of prudent capitalism as a viable system when compared to mercantilism.

China itself is starting to suffer from the tensions inherent in modern industrial mercantilism. China amassed a lot of money in a brief span. This accumulation led to mindless investment in real estate, construction and infrastructure, instead of passing the excess savings to its citizens as increased wages. The increase was not directed to labor in fear that wage increases would dampen exports, thus undermining the mercantilist drive and ethos. In economics, success often leads to failure because actors are prone to adhere too long to a tactic or strategy; they come to mistake their favorite tactic or strategy for the prime objective. Thus, they miss the mark. Here, the Chinese have built excess capacity to the extent of constructing cities that are sparsely inhabited. The vacant cities have no economic function in a nation where most people's incomes and consumption have been stifled in order to pay for the excessive construction.

Justice demands that the worker reap some benefit from his productivity; to deprive him is to push him toward industrial serfdom. This suppression of wages and living standards fuels social discontent. Centuries ago, government could prevent the discontent from publicly surfacing. The advance of human rights precludes this now. Government may be able to suppress wages and living conditions for a time, but it cannot fully suppress people's outcry against these deprivations. The Chinese government and the Chinese public will eventually collide at the crossroads of destiny if this system is not reformed.

Conclusion

To a significant degree, China's rise was inevitable. A nation with such size, resources, political will and history could not remain prostrate indefinitely. Its industrialized mercantilism is in keeping with the nation's economic tradition. The rising Chinese tide is now changing the global political economy. The evolving relationship between China and America will be of more profound and longer-lasting consequence than the American-Soviet rivalry of the Cold War. The latter was relatively straightforward adversarial relationship, made engrossing by the presence of competing nuclear arsenals.

The Sino-American relationship hopefully will not venture down this militaristic causeway. It already is a more complex relationship. The Soviets and Americans tried to best each other by keeping a cold distance and separating the world into geopolitical blocs. America and China compete by being intense economic partners. Thus far, the Chinese have gotten the clear edge. Believing itself invincible, America allowed itself to become flabby economically. Thinking whatever it did would perfect capitalism, American veered from capitalism without realizing it. It is now the temple of financialism. Cheap money and easy debt serve as the pillars of this new economic tabernacle.

China is more than happy to indulge America's financialist delusion. What it manufactures, America buys. Any nation entering into a broad, long-term economic relationship with today's China should be prepared to lose its shirt. America has already lost a suit or two. Since it has an extensive wardrobe, America has some leeway to recover its economic vitality before the hour strikes midnight. Still, we are past mealtime and well into the meat of the evening. Currently, China holds over $2 trillion of American money. While China sells much of its merchandise to Uncle Sam, America has forfeited chunks of its manufacturing prowess to China

The most accurate comment about China's success is not that China has upstaged capitalism but that China has revealed financialism to be diseased. The fast rate of China's progress, although not the fact of the progress itself, is predicated upon the fact that capitalism had been supplanted by financialism. China's continued pace of success needs America and other rich consumer nations to stick to their debilitating financialism. Yet, America cannot sustain its current position and affluence by being an observant practitioner of financialism. To maintain its status, America must change its economic ways. It must return to making more things for itself. To the extent America changes, China will be forced to temper its mercantile surge.

Even if America does not successfully answer the challenge of history, China will have to readjust. If it does not right its ship, America will experience serial financial crises in the coming years. Nations in crises are not nations that can import enough to push Chinese exports to levels sustaining China's desired rate of growth. Whether America repairs itself or not, China cannot rely on America's present levels of consumerism over the long term. One way or another, China will soon collide against the structural barriers of financialism, albeit indirectly. The Chinese should well understand the duality of financialism. It helped spark China's economic resurgence when China needed it. Just as China becomes masterful at exploiting it, the arrangement loses its utility. China will

have to adjust, or it will falter and drop just a few more steps down the road.

For China, the adjustments are obvious. It must turn a significant portion of that enormous productive capacity toward meeting the economic aspirations of its own citizens. After the Long Marches and Great Leaps, the Chinese people are due a period of "Decent Comfort." The people clamor for it. They see too many valuable wares leaving the nation's shores as exports, while their wages and standard of living remain below what is commensurate with the national output. More than any other nation, China experiences thousands of mass protests annually, mainly by people complaining about their economic circumstance. China must give more to its own citizens. Increased wages and greater domestic consumption will temper its mercantilism.

However, should China err and not moderate this strident mercantilism, it will be as much a contributor to the future wreckage of the global economy as America's financialism will be. By continuing on this path without meaningful adjustment, China will abet gross financial and trade imbalances. Its economy will become distorted by too much investment in production and export industries and too little domestic consumption. While financialism tempts nations to spend too much, Chinese mercantilism will tend to make the nation save and invest too much, creating idle buildings and infrastructure amidst a struggling, angry population. More than likely, other nations will seek to follow China's model in hopes of emulating its recent success. In economics, the more there is unthinking mimicry, the more there is failure. The more nations go down the extreme mercantilist path, the more other nations will raise trade and capital barriers to protect themselves from parasitic exporters. Trade or currency wars will ensue as surely as the British trade imposition and the resultant Opium Wars of the 19th century. This is a certain way to deflate the global economy, possibly reviving the type of bullheaded, confrontational nationalism that leads to heated conflict.

In the end, China's current success is remarkable and deserved. It is good that such a great nation tastes of modern prosperity. However, its current economic model must have a relatively short lifespan. This model can never be more than a minority report in the global political economy. By definition, it cannot become prevailing global practice without things terminating in ashen disaster.

Chapter Nine

A (Possible) Tale of Two Nations and Their Bleak Houses

The difference between national prosperity and poverty is that of leaders having a wise eye for the future or a fool's eye on the past.

Earlier chapters in this book discussed the ghosts of economies past, as well as those of the present. This is an appropriate juncture to concern ourselves with the demons waiting in the future.

Despite different histories, cultures, and levels of economic development, America and Nigeria are afflicted by the imbalance of financialism. Because they have guzzled the wine and feted on the transient delicacies of this economic model, both nations suffer bloated financial sectors and atrophied productive sectors. While Money Power walks triumphantly, the labor situation in both nations is straitened. Jobless rates in both nations move to levels considered unpalatable and in excess of general expectations, given historic rates and future aspirations. Yet, the story of these nations' possible futures is more wrenching than a recital of statistics.

The numbers suggest an expanding sea of diminishing hope, of families struggling, yet being crushed in the mortar and pestle of poverty. They tell the story of children, whose education and physical development will be blunted, of parents turning to the bottle or more severe forms of debilitation because they are too

ashamed to face a house of hungry children. The numbers tell the story of society closing the door on its own, of people being deemed failures, not because of wrongs they have committed but because society has no use for them. As it comes into malignant bloom, financialism will assign more people to economic ruin than capitalism ever imagined.

Financialism has reduced the American middle class to the point where it constitutes a smaller percentage of the population than it has in a generation. Financialism imminently threatens most of Black America with a status usually reserved for populations suffering a major depression. However, this depression will not be a temporary setback. It will become the nature of things. The dreams of the Civil Rights Movement will be washed away by the irrepressible tandem of a skewed, inequitable economy and the bigotry an unjust economy tends to accentuate. What is happening to Black America will befall most Black populations worldwide. Although they manifest differently in different lands, the same socioeconomic forces that curtail Black America also constrict the rest of the Black world. The lone difference is that Black Africa has greater political independence than does Black America. This independence may account for little. Indifferent to the economic threat, the leaders of most African nations tend to be complicit with it.

The Nigerian middle class was small in the best of times. It now stands on the brink of extinction because the boisterous wages of financialism attain only to the few people with access to big money. Everyone else is closed out. Soon, either a Nigerian will be rich or will be poor; we know which line will be the longer. Like today's America, Nigeria does not invest in infrastructure or education for the future. Most expenditures and activities are taken in contemplation only of today's consequence. Tomorrow and next year are written in a different book. Financialism produces a staggering blindness. Consequently, both nations amass unnecessary levels of debt. These two nations engage in this recklessness because they believe the day for payment will never come.

Because neither country sees beyond today, their leaders care little whether their current economic models are sustainable. America continues to deepen its debt pit because it can finance the negative draw for the time being. With the dollar as the world's reserve currency, America simply can print more dollars to cover its excessive import consumption and concomitant international debts. Other nations must accept the tender of dollars because of their status as the international currency. At some point, this advantage will end.

Because of its special status, America must put enough dollars into circulation to sufficiently lubricate global commerce and trade. To some extent, this compels America toward negative currency flows. Yet, there is inherent tension between America's role as the issuer of the reserve currency and its role as an actor in the global economy. The former role is that of a referee while the latter is that of a player in the competitive game between nations. The tension inherent in this duality has been exacerbated by financialism. By developing the complex architecture of modern asset speculation in general and the global derivatives market in particular, financialism causes more dollars to flood the global economy. Many of these dollars have no connection to productive activity. The dollars tend to skew the global economy in much the same fashion the American economy has become skewed. There comes a point where so many dollars, with no connection to increases in real goods and services, are placed in commerce that the currency becomes debased. Additional dollars that do not represent additional material output serve to decrease the value of all dollars. Money produced without a rise in actual production eventually reduces the value of the currency.

If America continues as it is, it will debauch its currency to the extent that other nations reject it as the universal currency. There already are signs of other nation's shifting from reliance on the dollar. If this trend spreads, America will not be able to easily fund its overconsumption of foreign goods. It will be forced to reduce this

overconsumption substantially. However, this presents a dilemma for America and its trading partners. Clearly, such a reduction would lower the standard of living in America. It also hurts those other nations reliant on American consumption to drive their economies. Just as a store closes when consumers lack money to make purchases, exporter nations deflate when importer nations deflate and stop importing. Thus, most nations will continue inertly because few have the courage to risk the consequences of a bold stroke attempting to break this Gordian knot. Yet, the dynamics of the current situation make it unsustainable. Either America amends the way it balances its dual roles in the global economy or the international currency system will undergo its most profound change since the 1971 introduction of fiat money. Unlike the introduction of fiat money led by America, the coming radical change will be a rebellion against America's financial leadership.

While America's reign as the supplier of the universal currency steadily becomes a troubled one, Nigeria manages to compensate for its policy errors with oil revenue. It will be able to do so as long as the major energy-consuming nations demand increasing supplies of oil. Nigeria's oil reserves are tantamount to an underground bank. If Nigeria did not have to bear the production costs of oil, its reserves would constitute a de facto printing press of American dollars. However, Nigeria must expend large amounts to extract oil. Thus, the oil represents a bank with tremendous overhead costs. This reality has not halted many national leaders from viewing the nation's oil reserves as an indefatigable printing press with little costs attached. Three decades ago, Nigeria's oil revenues were sufficient to fuel economic development that would have lifted the nation into the ranks of middle-income countries. That opportunity was spilled as carelessly as a slumbering drunkard lets slip the bottle in his hand. Now, oil revenues are sufficient only to sustain the nation's current poverty. Oil revenues will not be enough in the next few decades to maintain this minimalist condition. One of the best opportunities presented an African nation is being wasted.

Despite the significant structural economic imbalances jeopardizing the futures of their economies, both nations have sufficient time to cure their defects. However, the door to progress slowly closes. The political leadership in each nation must bother themselves with weighty decisions. Within the next five years, decisions will be made that determine the fate of the two nations for the rest of the century. America and Nigeria have reached the point where the effluvia of the age of financialism may soon overwhelm them.

The next pages of this book describe "basket case" scenarios for America and Nigeria. These sketches are not inevitable, but these scenarios will come to pass to the extent the countries do not reject the carpetbagger philosophy of financialism.

America Going the Wrong Way

The man rode swiftly into the frontier town. With him was a letter from his dead brother, a successful prospector until his demise. Because of the meandering postal system, the letter took several months to travel from this mining town in western Utah to Boston, where the surviving brother lived. The letter began with sad news. On his deathbed, the prospector had been wracked by harsh lung disease. Had that aspect of the letter propelled the man to brave the transcontinental journey through dangerous territory and dispiriting conditions, it would have been a commendable evidence of brotherly love. However, the prospector's frailty was not what stirred the rider forward. The rider had not seen his brother in years and rarely thought of him, except for the occasional flash of resentment at how the able man had betrayed his considerable skills as a physician to dig dirt in the hunt for the dream of fools. That his brother was almost dead brought no emotion. Within the next hour, he would be told his brother had died a few weeks earlier. No tears would the cold-blooded living shed for the once warm-blooded dead.

The brother trekked as he did because of what he read in the latter part of the letter. It was a revelation of wealth. The dead man wrote that he had hit a mother lode. He had only explored a small portion of the great find, taking a token amount from it compared to what existed. Yet, conversion of that small amount of gold yielded over a million dollars. This sum, the idiosyncratic prospector buried behind his house situated in the low valley beyond the mountains north of the town. The letter bequeathed the money and his one-half interest in the fertile mine to the Bostonian. This was the reason for the swift trip across three-quarters of a still untamed continent.

The letter warned the brother to come quickly for the government had decided to demolish the dam and return the valley to its natural state, that of a lakebed. The brother had arrived too late. The brother was dead and the valley flooded. From the water's surface, one could not tell where the dead man's homestead had been. Although thinking his brother moronic for not placing the money in a bank, the Bostonian was undeterred. He would find a way to claim the fortune put at the bottom of the lake by his silly brother.

While the brother was busy studying the lake, the dead man's best friend came along. He quickly noticed the facial resemblance to the dead man and began talking to the man from the east. The friend was the deceased's partner; he informed the brother of the fecundity of the mine. He revealed that they had discovered the mine only two months before the brother fell ill. They had mined less than five percent of the deposit. He pleaded with the brother to be his partner as the brother had done. The man claimed each would make at least $20 million within the next year. The Bostonian would have none of it. He told the man that he would never stoop to such a filthy vocation. He was not one to play in dirt or wallow in mud. The thought of it was beneath his station.

He had fixed his mind on the money underwater. His thoughts raced, searching to solve the dilemma. The solution he reached was

ingenious, so he thought. He would sell his share in the mine to the brother's disheveled partner for a sum sufficient to enable him to pay for the recovery of the submerged trove.

The miner tried to convince the man to work with him; in the end, he reluctantly agreed to take full ownership of the mine. He paid the brother $100,000, a whopping sum at that time. It never dawned on the easterner that, if the craggy miner could depart with such an amount, there might be some truth to the claimed fecundity of the mine.

The brother hired a rig and personnel to search for the money below. When the prospector asked why he had hired the rig and people, the brother wanted to keep the secret of the underwater trove to himself. He prevaricated that he sought to raise the house as a monument to his beloved brother and to recover precious family heirlooms. When the prospector tried to tell the man from Boston that the brother had left him something valuable, the easterner barked that he should be left alone to focus on the project at hand.

For many months, he tried to direct work crews to locate the spot, all without informing them about the quarry for which they hunted. All efforts failed. By year's end, the brother had exhausted the money the miner gave him and half of his own savings. Nearly broke and now half-mad, he abandoned the project and wandered off, never making it back to Boston.

As the man left, the prospector looked from the window of his home situated on the gentle slope just a few hundred feet above the water. He confided to his wife that folk from the big city dressed much finer and talked more elegantly than anything he had imagined but were mean and exceptionally stupid. The prospector explained to his wife how he begged the man to continue working the mine. If the Bostonian had done so or even hired the crews to do it, he would have been a multimillionaire. Instead, the man spent good money trying to pull a rickety old house and worthless old pots and pans from the belly of the lake.

On his dying bed, the brother had instructed his partner to rescue the money before the valley was flooded and to give it to his sibling when he came, the man told his wife. However, the strange man scolded him and shut him up whenever he tried to tell the brother about the money.

"Well, I guess that's why the two brothers never talked much to each other. The strange one apparently just did not cotton to the notion of working to make money. I wonder how things are done in the city. He had a fortune in his hand and tossed it into the lake. Any fool can obtain gold, but it takes a wise man to hold it," concluded the wife.

America acts like the haughty brother. America has convinced itself that it knows more than others and can only learn from itself. Because too many of its business and political leaders consider themselves paragons of capitalist goodness, they believe there are no decent economic ideas that can come from other Americans, let alone from other lands. They listen not to others, nor do they assay the evolving circumstances into which their nation has entered. Too many American policymakers believe they are doing things that will perpetuate their economic advantage over the world when their very actions and ideas abridge the nation's status as the dominant economic power. They move in a direction opposite to their set objective.

The problem begins with the financialization of the national leadership and of American democracy. The leaders are not ignorant. Most are intelligent, some brilliant. They know what profits them. This blinds them to the wider consequences of their actions. Ideology helps one to think but also leads one not to think. These people value their thoughts more than they value reality.

They tell their fellow citizens America is the greatest nation and that Americans enjoy the best of everything. Fifty years ago, this statement was true. America had and built things other nations could

only envy. Thirty years ago, this sentiment would still have been true, but less so. America was getting flabby and overly contented while other nations strived to rival it. There were developments in industry, technology, science, and the arts in other places that surpassed American activities. America was losing its near monopoly of being the author of the trends that drive the future. This realignment took visible manifestation. The infrastructure, manufacturing sector, and lifestyle in numerous countries displayed attributes more innovative than the American standard. America stopped being the nation to visit if you wanted the best of everything. While still a choice destination, it was no longer the economic Mecca.

The statement about Americans living the best lives has stopped being true even in a general sense. The average American works harder, travels less, is less knowledgeable, and dies earlier than his European counterpart. Still, Americans blindly cling to the myth of national superiority. The area where that vast superiority exists is in military science and hardware. America remains, by far, the most powerful nation. This is a source of undeniable pride and security. As the war in Iraq proves, it can also entice an undisciplined president into deploying military power where unprofitable. Not only do they drain military power, such misadventures sap wealth and moral vitality. In the end, being the most dominant military power provides that enviable form of security protecting a nation and its wealth from foreign invasion. Although it must contend with terrorism's threat, America is secure from conventional military invasion for the foreseeable future. However, that a nation can secure its wealth from attack does not mean the wealth will expand or even remain the same. America has done well to protect itself from external danger but has fallen short in arresting the most common danger that befalls great nations: internal rot.

America has forgotten that during its climb to the top it was not ashamed to borrow ideas from other nations. Most average Americans see social security as a foundational aspect of the modern

social compact between the people and the federal government. They misperceive it as something distinctly American. They are wrong. America borrowed the concept from Europe. America was the last of the major western economies to enact such legislation. America did not build its interstate highway system until after WWII. Upon entering Germany as war in the European theatre reached its climax, the American army immediately recognized the military significance of the utile autobahn. If asked, most Americans would probably assert that social security and a national highway system were distinctly American innovations copied by other nations.

Now America belittles others and their innovations. For an American to admit another nation does something better is to be condemned as unpatriotic. Today, America opposes a national healthcare system although other developed nations have it. Because of this reactionary position, roughly 50 million Americans—the population of Spain—remain uninsured. Even though it tends not to this multitude, the American healthcare system is the world's most expensive. Yet, the average American's life span is shorter than that of a citizen of one of those "inferior" European nations.[1] One in five American children is raised in poverty. Things have turned so sharply that a European philanthropic organization now provides the same type of assistance to children in Mississippi that it delivers to African nations.[2]

American politicians of all stripes eagerly mount the rostrum at any venue to proclaim the American worker as the best, most productive on the planet. In the same breath, they warn the American worker needs to be retrained to be competitive in the new global economy. This is cynically illogical. While both assertions may be false, both cannot be true. Logic rebukes the notion that this particular mass of people could inherently be more productive than other populations simply by their birth in a particular land. It is inaccurate to think a worker—who is handed an aging public infrastructure, mediocre education, stagnant wages, a pile of personal debt of which he cannot see the end, and a dilapidating

factory base—can be the world's most productive worker. Saying these things wins votes and sounds patriotic but harmfully postpones the day of reckoning to make the changes that could make this statement true. Meanwhile, jobs disappear from the American economy in droves, and the standard of living for the average American is inferior to that for the average citizen in several other nations.

Thus, the purportedly most productive laborer in the world is left pondering why he is jobless or on the verge of it. If the American laborer is so productive and efficient, he cannot be the blame for the country's economic slackness. More to the point, he has no need to be retrained if he is already the world's most prolific worker. If he is the best, what can retraining do for him? The American worker is caught in a predicament not of his own making. The indictment rests elsewhere. It rests upon the national leadership.

America's political leadership has fallen captive to the lure of money. Policies promote the interests of big money and little else. This further tightens money's grip on the political class. Roughly 100 years ago, Teddy Roosevelt stood atop a kitchen table before thousands in Osawatomie, Kansas, to give his famous "New Nationalism" speech, warning his audience about the minatory effects of big money on democracy. Trying to appropriate the Roosevelt populist legacy as he positioned himself for the 2012 election, President Obama went to that same Kansas town in December 2011 to give his version of the call for economic justice. While Roosevelt's speech was timber, Obama's was tinsel. Moreover, President Obama's milquetoast approach to economic reform belies the words he spoke that December day. Far too progressive for Money Power and the media it sponsored, Roosevelt's speech was ballyhooed by the establishment. Running as a third party candidate at odds with Money Power, he had little chance of winning the subsequent election. Conversely, President Obama has done his ambivalent best to appear populist while not discomfiting Money

Power. He remains within the establishment's tent; thus, he has a fine chance of obtaining the second term he desires.

While walking the globe promulgating representative democracy and liberal capitalism as the model most worthy of emulation, America no longer applies the advertised model at home. In describing the current situation, President Lincoln would say: "I know not whether government by, for, and of the people has perished from the earth, but I can assure you it has lost residence in Washington, DC."

American politicians constantly need money for campaign purposes. The costs of political campaigning probably have increased during the past 20 years more than the costs of any other industry, even healthcare. Because of this escalation, politicians are always in fundraising mode. Before the billboards from the prior election are dismantled and balloons from the victory party deflated, politicians are thinking about funds for the next election. With so much mental energy focused on maintaining their professional survival, politicians spend less time on the substance of their work.

This is something the moneyed interests have encouraged. The more money politicians need, the more the people with large pocketbooks exercise influence over politicians. The large financial houses and investment firms have the surplus liquidity to meet the politicians' needs. Human nature being what it is, an inevitable conflict of interests is fermented. Contrary to popular opinion, politicians have a sense of loyalty. Unfortunately, it is a loyalty purchasable at moderate costs. Having received one's political lifeline from professional financiers, politicians feel obligated to their benefactors. More to the point, ambitious politicians fear their benefactors might retract their largesse should the politicians chart a course divergent from the interests of big money. Politicians dare not sever this umbilicus, for there is no ready substitute.

Thus, most politicians are tethered to big money contributors. They do what big money requires, or they do not survive the next election cycle. Should they try to be independent, their day in the limelight will be a brief one. This is the reality for most elected officials. Only a few can stake an independent position, thumb their noses at the oracles of big money, and win. Only a few can operate from a position of principle. The rest must mouth the stuff of those who make their careers possible. Things have deteriorated to the state that few independent-minded people seek elective office. They have determined it to be a lost cause. For the most part, those who enter politics no longer have to sell their souls. Financialism has become so pervasive a mindset that almost all who seek political office are adherents of this creed because they see themselves as belonging to the elite that financialism enriches and empowers. Government and those who run it have turned mercenary in this new Age of Money.

President Obama rode the popular wave into the White House. Before he ascended the popular wave, he already was indebted to big money. His campaign amassed an unprecedented sum and spent likewise. Myth says the campaign was fueled by small donations from millions of average citizens. This tale will enter American political lore somewhere between the adolescent George Washington lopping down his father's cherry tree and the legend of Pocahontas. Obama could not have launched his successful run without the seed money obtained from Wall Street Democrats. That he would attract small donations from the many does not erase this underlining reality. In the end, too much of his campaign money came from big money. He owed them. They knew it and he knew it. The public did not. For those who keep their eye on the money, the pro-financialism composition of his economic team was of little surprise. His team would be populated by advisors who made their fortunes on Wall Street and who believe the fate of the American economy begins and ends on that one road.

Welded to these men by money and mind, Obama has pursued a political approach combining soaring rhetoric with piecemeal reform. Obama's administration averted depression, and he deserves ample credit for this substantial feat. The nation now feebly recovers from the worst of the recession. Unfortunately, the sickly recovery will be no more beneficent and last no longer than the time needed for storm clouds to gather once again. What has been done has not secured economic recovery. It has but delayed and diffused the storm's brunt so that the decline will feel less pronounced. Nonetheless, decline it will be. Obama's economic policies have been one part Hoover, one part Bush II, and one part Roosevelt. This is not a winning cocktail given the harshness of the hour.

While President Obama's economic policies and attitude have wavered, he is better than most politicians. The Republican Party is a conclave of zealots ready to carry high finance's bidding to profane extremes. What makes them so dangerous is that they have effectively presented financialism to the public as if this ideology were consonant with American economic history and with a better economic future. While calling themselves conservatives, they are revolutionaries engineering a startling departure from the American ideals of industrial prowess, upward mobility, and participatory democracy. They are radicals intent on turning America into a laboratory of free-market excess. The reductions they seek in government and in the society safety net erected by government would turn America into a Social Darwinist encampment. There is no tax break for business, no matter how unwise, they do not like. There is no government regulation, no matter how prudential, they dare not castigate. If possible, they will take America to a place where business can do as it pleases and people will be left to their own devices. As such, they are ignorant of American history and how its economy was founded on the balance between economic dynamism and significant, if imperfect, social justice.

During the final third of the 19th century, America entered a period that presaged the current one. This was the Gilded Age. That

this era overlapped the Long Depression of 1873 was not coincidental. It was causal. The spirit of the Age begat the specter of depression. The wealthy became more so. Vast corporations and holding companies controlled widening spans of the economy. This was the time of Rockefeller, Mellon, and Carnegie. It was also a time when workers enjoyed little protection and benefits beyond what the employer volunteered to give; labor unions were prohibited or intimidated out of existence. Financial houses engaged in excessive speculation. The Long Depression and the financial crisis of 1907 serve as appropriate bookends for this era.

Despite these excesses, most economic players at this time understood the financial sector to be ultimately subservient to the productive sector. At times, they disobeyed this commandment. Their disobedience inevitably resulted in financial crisis. Repentance took the form of returning the economy to one led by the real sector. However, a curious observation could be made after this and every other financial downturn. The wealthiest people grew even more so after each episode. For them, financial crisis was good business. Those who did not have fell farther behind. The wealthy increased their holdings and grip on the economy. Labor was more overworked, underpaid, and unprotected. The economy became one of greater extremes.

The first President Roosevelt helped usher in the Progressive Era; the hallmark of this period was legislation dismantling the great economic combines that had formed. Teddy Roosevelt understood that neither democracy nor capitalism could survive if the vast concentration of economic power went untreated. He recognized that economic regulation would always be required. The dynamics of the political economy were that a minute initial economic advantage would translate into something larger over time. Left unchecked, this advantage would mushroom into something so large that it would undermine the principles of economic and political fair play. Roosevelt began a process of recalibrating the political economy to strike a more just, durable balance between the thirsts of the affluent

and the aspirations of the modest. This was the message of his famous "New Nationalism" speech.

It would take another depression and the next President Roosevelt to cement the deal tempering ruthless economic pursuits by providing social support for the working class and the poor. This strategic arrangement enabled America's market-oriented democracy to move forward without spawning extremes of flagrant affluence and miserable destitution that could tear society apart. The crowning achievement of this New Deal was social security. In essence, the New Deal was a practical arrangement, whereby the nation's major economic constituencies agreed (the corporate and financial sectors only grudgingly) that government would provide a safety net for working people, the old, and the poor. This support would douse potential revolutionary sentiment by making the poor feel relatively secure, thus leaving the wealthy to enjoy their riches in peace. While many wealthy conservatives kicked against social security on the ideological grounds that it constituted government interference in the economy, the measure was in their interests. By renewing labor's vows to capitalism, the institution indirectly provided more political security for the rich than it did financial security for the poor and humble.

The implicit agreements underlying social security have been the capstone of the modern American political economy. Adherents to financialism want to renege on the Rooseveltian deal between government and the people. Hoping to abrogate the modern social contract, financialists want to reduce government spending by dismantling social programs and foregoing investment in physical infrastructure and education. They have forgotten the necessity of investing in the welfare of the working class so that the economy that made the financialists rich may continue to do so without rancor or unrest. In addition, they seek to truncate government's regulatory activities. They want the private sector to have carte blanche to create the large conglomerates, combines, and monopolies once considered anathema. The only exception to this desire to curb

government regulations is their desire that government continue to regulate organized labor so that its collective bargaining powers are curtailed.

Financialists regress to the Gilded Age mindset. There are problems with this regression beyond its patent unfairness. Unlike the Gilded Age, America no longer moves toward expansion of its productive base. During the prior era, expansion of manufacturing produced economic growth that led to employment. Although treatment of the worker was callous, there was a sense that work could be had. There was optimism that the nation was growing and climbing the ladder to something better. Today, we suffer the opposite perspective. Jobs decrease, as does the wage paid for the work remaining. The economy of today is not steered by industrial growth and factory activity. It is yawed by financialist legerdemain. To return to the rule of malign indifference is always an insalubrious thing. To do so when there is less space in the economy to absorb the ill-effects of this return will wedge most people in the narrows. Conversely, the rich and powerful will be given wide space and blunt license to enrich themselves by leeching a struggling economy.

The affluent are important players not only because of the good they do when steering the economy responsibly but also because of the damage they precipitate when behaving irresponsibly. This brings us to a point the wealthy hope the public never appreciates fully. The rich claim they, and they alone, drive the economy to higher ground. If true, it also means they are the ones who drive the economy into the ditch when it lands in one. Prudent, wise investment by the moneyed class spurs economic progress. Speculative, unwise investment by the rich causes rapid expansion immediately followed by thunderous collapse. The rich vocalize solely the positive half of this equation because they want the public to believe that whatever they do is inherently beneficial.

In their estimation, they must be allowed unfettered conduct; their mere possession of money renders their actions always right.

One would be wise not to mount this two-legged horse because history tells a different tale than the one the rich broadcast. Every protracted economic recession or depression has been preceded by a financial crisis brought by the fumbling hand of the wealthy. When the amount of money in the hands of the wealthy exceeds what is needed for reasonable investment, the wealthy abuse their station by engaging in gross malinvestment and speculative ventures with no attachment to productive activity. They turn investment into gambling; ultimately, everyone loses, including those too poor to have played the game. There have been no major financial crises not occasioned by lewd speculation by the rich. Although some people with modest means may join in the frenzy, poor people do not cause financial crises. They lack the financial means to direct or misdirect the economy; they are basically spectators and victims. Financial crisis comes when too many moneyed people take leave of their senses to become rabid speculators.

America cannot afford financialism's revival of the Gilded Age Zeitgeist. Whether America hurtles itself toward this mistake or reawakens a new progressive era is the cardinal question of today. It will be answered one way or another. The most symbolic battle in this regard centers on the fate of social security and similar government assistance programs.

Financialists come in slightly different hues; at times, there are slight disagreements among them. These slight disagreements span only a small portion of the spectrum of possible policy options and almost never encompass discussion of policies most beneficial to the multitude. Disagreements among subgroups of financialists relate to which segment of their class should profit the most and over how heavy an extra burden should be placed on the rest of the population to accomplish the task. To their credit, financialists generally manage to convince the rest of society that these internecine squabbles represent the full spectrum of reasonable debate. Anything outside the financialists' ideological domain is deemed as unworthy of examination. Consequently, the unwitting public is weaned on

financialist hardtack. The public is told that they are hearing all possible arguments and alternatives from opposing political camps from both the right and left hands of politics. However, all they are seeing is the movement of the fingers of a single hand. The debate over social security must be seen against this backdrop.

One of the financialists' important goals is to privatize the social security trust fund. Both mainstream Democrats and Republican move toward this dark goal. Their only difference is over the speed of the change. They all claim the change is needed to cure the federal deficit. That the social security program itself will not be in deficit for over a decade does not faze its assailants. Given America's economic circumstance, ravishing this currently solvent program makes little sense. There are more pressing matters. Social security may run into future difficulty because of simple demographics. There are simply more older people than in the past. However, this future problem can be largely alleviated with two simple measures.

First, the entire income of affluent people should incur a social security tax. Currently, only little over $100,000 of a person's income incurs social security tax. Taxing the entirety of larger incomes will bring billions of dollars into the trust fund. Second, social security benefits should be "means tested." Those who have greater personal means do not need social security benefits to the same extent as the elderly poor who almost exclusively depend on social security as their sole income. Therefore, the well-off can afford a reduction of their social security benefits. These two measures will not lend hardship to anyone, but will go far toward making the system solvent for the foreseeable future. These measures are just and make economic sense. However, mainstream politicians allied to the financialists rather not consider them. These policymakers actually do not want to repair government-run social security. They want to give it the axe.

An objective other than the solvency of the trust fund is at play. Social security, once considered politically inviolate, represents an

important symbol. If it can be privatized, then no social program is safe. All of them are susceptible to a great pruning. The more the budget can be cut, the more tax cuts can be pursued. The more taxes are reduced, the more the budget will have to be axed.

A cycle will evolve in which wealthy people keep more money. They will seek to rally the working class to their side by claiming that everyone will also be able to protect more of their income from the tax collector. This will be true, but the resultant depletion of needed social services will cancel the marginal gains of the working class from tax cuts. They will have slightly more disposable income. However, their wellbeing will diminish as levels of education, law enforcement, sanitation, fire protection, and other services shrink. Jobs will also be lost as the government dismisses employees and reduces its contracts with private firms for government projects. For poor America, this spells debilitation. Housing, childcare, and food assistance will be curtailed. The distance between the wide door of poverty and the shrinking portal into the middle class will be daunting, passable only by dwindling numbers. Entry into the land of the rich will almost be barred. The concept of upward mobility will find itself in a museum, lodged somewhere between the covered wagon and the typewriter. For poor Blacks, the American melting pot is turning into a flimsy pot that is melting.

Privatizing social security will create a boon for the financial sector. Instead of the program being managed by government, contributors will be left to the mercy of private firms to handle their funds. Investment firms will charge huge fees in the aggregate. This will afford financial houses a large new vein of money to use for investments, the likes of which the social security administration would deem inappropriately risky. Had social security been in private hands during the financial crisis, the fund would have lost a large fraction of its value, thus impairing the economic survival for tens of millions of innocent people. This observation seems not to trouble privatization's advocates. They walk untroubled because the welfare of social security participants does not concern them. They

seek change not for the public welfare but for the private gain of big money.

The coming years promise to be dreary. Most Democrats and Republicans have adopted the financialist catechism, affirming that the cardinal object of government is to cut the federal budget by cutting government programs. No one in the halls of power will question why the federal system is structured so that government must borrow its own money from private hands. For those who benefit from the current ways, the question is unanswerable. To raise it, means to disinvite oneself from the councils of power. Thus, the government, that should function as the counterpoint to financialism, is a willing thrall to it.

Government will reduce in size and its beneficial impact will lessen. As government budgets shrink, so will government services. Public education will plummet to levels seen in most middle-income nations. America's aging infrastructure will be refused repair. Power outages will become common. Many bridges will become too fragile for use. The tap water one drinks will be of a kind that makes one ill. There will be fewer firefighters and police officers to respond to emergencies. America, while exalting its reputation as the center of financial innovation, will be a closed attic to the infrastructural improvements needed to revive the real economy. The best and brightest from overseas will stop flocking to the United States to live, study, and contribute to America's growth and development. Worse, America's best and brightest will not be tied to home either. Seeing better futures elsewhere, they will begin to emigrate in increasing numbers. Despite these trends, most Americans will continue to tell themselves that they are the best although a third of Americans live in or near poverty. In other words, when an American looks to his right and his left, one person in that trio is poor. If the problems of a stultifying political economy are not resolved in the coming years, the number of down-and-out Americans will exceed the combined populations of Spain and Italy (toss in Ireland for good measure).

Meanwhile, America continues to act as a modern empire with an ever-expanding military footprint. This military is a costly animal to feed. Its great size saps resources better used to rebuild the nation's economic infrastructure. Moreover, the larger and heavier the military, the more acute becomes the proclivity to use it. At some point, the U.S. military will prove to be too costly. Until then, America's military will stride far and wide, establishing bases, and waging declared and undeclared war in so many countries that many non-Americans will begin to ask if the nation is at war with the world. To some extent, the question and the concerned resentment underlying it will be justified. Still, the more accurate observation will be that America is at war with history.

Ironically, this reliance on military power will cause America to spend less on qualitative reform of the economy. The resultant stagnation will render the weight of the military too heavy for the economy to bear. By gulping the money needed to keep the economy on the correct tack, both the financial sector and military complex make their own well-heeled existence impossible in the long term. Once these two remaining symbols of national greatness start to decline, America will find there are few friends among nations. The once indispensable nation will find that others will call an end to its reign as the global leader.

Nigeria's (Possible) Fall from Promise

The pastor was ecstatic. He had prayed for this day to come, and so it did. Service in his small, crowded church began like any other Sunday. As the city expanded over the years, the community around the church had transformed. Once a quiet residential area, it was now a busy commercial zone except for the church. Even on Sundays, commerce kept pace and congregation members were hard-pressed to find parking spaces. Still, the faithful came as they always had. The church was a fixture, despite the changed character of its neighborhood.

Midway through his sermon on "The Gift of Giving," the pastor noticed a commotion at the entrance to the church. To his constant chagrin, people arrived late all the time, but that day's hubbub was different. He quickly saw the reason why. It was a man, but not just any man. Walking down the main aisle with a bevy of assistants filing behind him was the wealthiest man in the state, if not the country. The pastor quickly signaled to his elders to vacate their prized seats on the front row so the great man and his minions could sit in places befitting a man of high stature.

Lining themselves against the nearest wall, the unseated elders and deacons began posturing clumsily like embarrassed, animated figurines too bashful to be on display. Finally, they eased their discomfort by forcing those church members, important for their nice contributions to the offering plate, who had been sitting directly behind them to relinquish their seats. After all, the elders and deacons are part of the hierarchy of the church. The important church members did the same to members of lesser importance sitting behind them. This process continued until a few of the poorest members of the congregational were altogether pushed out of the church due to lack of seats.

The pastor could barely contain himself. He stopped preaching. The entire congregation fixed their eyes on the wealthy one who confidently strode to the front. The man knew a place would be made for him. Moses was no longer on earth to part the waters, but his presence was no longer needed. Money had become a fitting substitute; it can always part the ways and rules of man. The famous man never saw an instance when money did not change the course of things or did not produce an opening where none had before existed. This morning would be no different.

Ending his silence, the pastor announced the man's arrival in an attempt to bring solemnity to the uproar. His announcement did not help; the preacher was the main reason. The man of the cloth returned to his message with a kinetic energy and fervor not seen in

him before or since. This usually calm man started jumping, screaming, sweating, and shouting as if on a trampoline connected to an active electrode. He began to sweat so profusely that he soaked his rarely used handkerchief. He snatched one from the hands of the nearest deacon and continued his sermon that seemed more human perspiration than divine inspiration. He emphasized how blessed it was to give. He did it with such excitement that the members of the congregation, except for one man and his minions, rose to their feet. Once standing, no one thought of sitting back down. If only those ousted members had waited before leaving in disgust. They could have reclaimed their chairs. Even without those who left, the sound of the stomping feet, clapping hands, and fervent shouts of the congregation could be heard into the adjacent state.

Then time for the offering came. With his gazed fixed on the visitor, the pastor admonished the congregation to give generously. The man talked so long and stared so blatantly that his wife was compelled to visit the podium to snatch the microphone from his hand. At this, the rich man motioned to one of his assistants. The assistant handed him a chequebook. The man signed a cheque. The assistant gave the cheque to the pastor who stared numbly at the instrument before handing it back to the assistant, asking why there was no figure written on the cheque. The assistant replied the pastor should fill the amount he wanted.

The cleric knew his prayers had been answered. He asked the great man to stand. Before the congregation, he prayed for the man and anointed his head with so much oil that it soaked the lapels of the only tailored suit in the church that day.

Immediately after the service, the pastor wrote the sum of five million naira on the check. He reasoned this amount would pay for the church's rent, but it was not such an enormous sum for such a wealthy man. The pastor figured the rich man would see his constraint as a sign of his respect and humility, which, in turn, would bring more favor from the obviously generous billionaire.

Two days later, the man unexpectedly came to visit the pastor in his church office. Upon seeing the man, the pastor sprang from his chair to grasp the man's hand in both of his. The pastor's heart fluttered. This was further confirmation that his dreams were coming true. The man had clearly been touched by the service, and wanted to do more for the church, he thought.

"Sir, I want to thank you for honoring our service with your presence. May God bless you," gushed the pastor.

"It was nothing. I enjoyed myself immensely," the wealthy one smiled.

"We are a humble congregation, but a spirited one. I hope you felt at home."

"Oh, I felt at home, in more ways than one."

The pastor beamed at the man's response. "How can we help you? If there is any way I can be of service, please let me know. Just let me know. There is no way your generosity will go unrewarded."

"Yes, I would like to talk to you about a matter I believe is one of overlapping, if not, common interests."

"By all means, I would be glad to help you. Before we begin, let us pray."

"Pray now, if you wish. If I were you, I would wait until after we finish. I am sure you will find prayer more compelling then than now."

"What?"

"I see you cashed the cheque for five million naira."

"Yes, I hope that was not too much. If so, we can give it back. I just thought of that amount because it would allow us to extend the lease here for another year."

The pastor worried about whether the man's unexpected visit was to recoup some of the funds. Perhaps the man had tested him, and he had failed. The pastor now worried that he had overindulged. He felt ashamed and worried the man would see in him a moneygrubber. *Why did I bite so much?* he pondered.

The man chuckled, "No, no, the sum was not large at all. I offered you a blank cheque and would have honored whatever figure you wrote. That you sought the sum to pay your rent is heartwarming to those who profess to have a heart. But the reward for this modesty must certainly await in heaven because it will not come in the here and now."

"Sir, you speak in strange and troubling words. What do you mean?"

"I purchased this land. I am its new owner and, thus, your landlord. However, I have no intention to rent this place to you for five million. I can construct an office building or luxury flats and make several hundred million a year. I have no interest in the return of the paltry five I just gave you. What profits a man to merely receive the same amount he gave? I have a proposition. If you can pay 50 million naira, I will let you stay here. If not, I want you and your bumbling congregation off my land next month."

The crestfallen pastor slumped in his chair. "You cannot be serious. How can you do this? We have been here for over ten years. You, you, you just cannot evict a church. This is holy ground!" he screeched, trying to steel his lapsed courage.

"My friend, anything that can be bought is not holy. And that includes you!"

"You cannot insult an envoy of God like that!"

"Stop it! Stop this 'envoy-of-God' talk. Your holy talk will not work here anymore. Remember this parcel is under new management. You think me a fool? You may pray to God, but you worship money just as I do. The only difference is that you don't have much and I do. That makes me your pastor. You should have seen yourself when I came into the church. You didn't behave as a man of the holy cloth. You behaved like a man wholly salivating over money. You were like a vulture pouncing on a fat carcass. You were so busy counting the money you hoped to siphon from me that you did not analyze the situation. Why would a man like me come to a church like yours, except as a general surveying his next battlefield? I gave you a chance to empty the account of hundreds of millions. Because you valued money so much, you took but a little, and that little will little serve you in this situation. You gained some money but just bought yourself into a despair from which that small amount cannot free you. You thought you had victory, but in cashing that pitiful cheque, you sealed your defeat. I won. I can't wait to hear how you explain this to your flock. Will you be honest or leave out the better parts of this drama?"

"But why would you give me the chance to fill in the check."

"My friend, life is war, but war is nothing unless both sides have a chance to win. I gave you a chance. This makes my victory all the sweeter, and whatever conscience I have is clear because it was you, not me, who wrote your own writ of execution. In all honesty, it was not much of a battle. By your actions, I could tell beforehand you would lose. Had you real faith in your God you would have written a cheque so large that the heavens would have had a hard time cashing it. However, the god you preach is not really God. Money is your deity, and my bank account was the ready altar. Because you did not want to offend either your true god or its tabernacle, you walked softly about the cheque, as if you were walking about a sleeping

saint. This makes you a dishonest man. At least, I am a wolf who wears his wolf's clothing honestly."

"You have ruined me."

"There you go again. I did nothing but enable you to be yourself. It was you who gave full vent to your greed and love of money. You love money so much that it twisted your mind into taking less than you should have. Had you thought less of money you would have taken more. Making a claim upon me for a small amount of money was more mercenary and vile than it would have been had you sought 20 times the amount."

What do I do now? What can I tell my people?" the pastor lamented.

"You ask advice from the strangest quarters. What you do is my curiosity, but not my concern. "

"I shall pray."

"Looks like I am a better prophet than thee. Didn't I say you would pray more at the end of this conversation than you did at the beginning? Let's hope you fare better with the God of mercy than you have with the god of money."

"Sir, if you will, please excuse yourself from my office."

"I will excuse myself after a point of correction: It is my office."

With that, the rich man left, chuckling, closing the door gently behind him. As the man left, the pastor sank to his knees, planting them firmly to the floor as if he had no intention of rising for a long time.

Nigeria is in a more parlous state than America. While America faces the challenge of revival, Nigeria faces the challenge of never having known broad prosperity. It has been more than a nation in poverty. It has been a nation of poverty. Most of its people are never more than one meal and a few naira removed from utter destitution. Nigeria has isolated pockets of industrialization, but the nation has never been industrialized as the term is most widely understood. Sadly, both manufacturing and agriculture have declined in the past two decades. The nation has lost hundreds of thousands of manufacturing jobs. Much of this loss is due to low-cost textile imports from China and India. Some of this loss is attributable to Nigeria's prohibitive business overhead costs that have chased factories and firms into neighboring countries.

The nation's population is half that of America's, but its economy is less than five percent of America's. Nigeria's once formidable educational system has been devastated by neglect and lack of funding. The medical care system is hazardous to a patient's health. The best healthcare in Nigeria is a plane ticket abroad. The national infrastructure, the ports, roads, and railways have never been a sufficient platform for economic development. The total output of the nation's electrical grid is roughly one-fourth of the electricity used by New York City.[3] Nigeria's total output is barely sufficient to light the borough of Manhattan. Over half of the labor force is unemployed or underemployed. Its income inequality is among the worst in the world. Most of the affluent do not earn their wealth from productive economic activity. They derive their income from rentier behavior, such as currency arbitrage made opportune by the difference between the official and real market exchange rates.

Nigeria survives on oil and gas revenues. These streams constitute over 80 percent of the nation's foreign reserve earnings and government income. Like Americans, Nigerians have a bloated view of themselves. This proud people constantly refer to the nation as "great" and the "giant of Africa" because of the nation's large population and its ample natural resources. Like America's, this

hollow gasconade encourages hubris and veils serious problems. Nigeria is neither great nor a giant. It can be both, but neither is predestined. Arriving at these objectives requires national purpose, a lot of sweat, and even more toil.

Nigeria's biggest obstacle is its unproductive political elite. This political class is not learned in the main. Instead, it is overly populated with individuals whose only expertise is in the rough-and-tumble of Nigerian politics. Too many are inveterate politicians with scant professional ability, save that of manipulating political party and electoral machinery. These wiles and the natural intelligence of those who exercise them are not to be discounted. These politicians are smart but narrow-minded. Yet, their ardent chase of selfish ambitions hardly constitutes a convincing résumé for national development. The problems of Nigeria are those of poverty and lack of economic development. As a class, the nation's politicians are unversed in economics. They are ill-equipped to resolve the nation's most fundamental problems. In short, the political class is unequal to the task of national leadership it has so voluntarily assumed.

Because most politicians entered politics for reasons other than collective progress, they do not care to learn about economic development or most other aspects of substantive governance. Their adroitness lies in self-aggrandizement. In this regard, they are thoroughly literate and clearly adroit. When it comes to governance for national development, they become disoriented. Most have nothing to offer because their universe is defined by an inversion of a golden rule: it is always better to receive than to give.

A sad truth is that many politicians do not want Nigeria to develop into a rationally organized state. They would rather Nigeria remain loose—a country where the system is that there is no firm system. The rationality and order needed for economic progress would remove many from their high estate to a place more befitting their lack of civic purpose. In effect, too many politicians view themselves as a modern aristocracy. They see the state and

government as extensions of themselves and as tools to fulfill their own designs. They seek to place the public in a condition of modern peonage. Many politicians do not desire to see the average citizen become self-sufficient and independent. Politicians would rather the economy remain small enough for them to control and monitor so no one makes any headway without the politicians being involved and getting their unfair cut of the action and the resultant proceeds.

Because of their lack of basic economic and financial knowledge, Nigeria's political leaders have followed the advice of too many unimaginative advisors who have counseled that Nigeria indiscriminately adopt financialism as its guiding light. This light leads them and their nation into self-contradiction. Nigeria adopted an economic model for a post-industrial state without having industrialized. Cheating this historic sequence might be considered bold if the adopted model fits the nation's challenges. Unfortunately, financialism would lead Nigeria in the direction opposite to economic development.

Unlike America, Nigeria does not have the luxury of significant accumulated wealth on which it can feed during these uncertain years. Nigeria is a smaller, more densely crowded house. It must act more quickly since its condition is more tenuous.

If Nigeria persists in traveling on its current path, its future looks bleak. Like America's, the Nigerian government took steps to stem a financial crisis that would have flattened its banking system if left unattended. Some laudable reforms, such as the formation of AMCON, the resolution facility to handle troubled assets of distressed banks, were enacted. To the extent AMCON and the other reforms are implemented, they will make less likely a crisis of the vast proportions of the 2008 bank upheaval. Despite the reforms, financialism remains the controlling mindset.

Because of the attention and funds provided it, the financial sector will recover. However, that recovery will be shallow primarily

because the productive sector remains weak. Due to the lack of solid investment opportunities in the productive sector, the drive for profits will tempt the financial sector back toward speculative investment in itself. Without a strong impetus toward revival of the manufacturing sector, financial recovery may inevitably lead to another asset bubble. Despite the reforms implemented, the system is still unbalanced and skewed to promote financial license. Hopefully, the Central Bank of Nigeria understands this dynamic and is primed to take countercyclical measures to fend off disaster before its close approach.

Even if disaster is avoided in the financial sector, the rest of the economy will likely remain catatonic because there has been insufficient care administered it. Economic policy remains inappropriate because the political class cares little for progress. Because they will continue to profit for a time, the political and economic elite will not yet change course. They will blithely reap from oil revenues, currency manipulation, and other financial magic. However, no nation ever achieved greatness primarily by selling resources extracted from the ground or by exploiting differentials between currency rates. No large nation has ever achieved greatness without first experiencing a protracted period during which exports of manufactured goods substantially exceeded manufactured imports. National greatness rests in building and sustaining an ample manufacturing base, although exports do not have to exceed imports in perpetuity. Sadly, Nigeria's productive capacity will likely diminish, remaining stuck to a hollowing trend that began 20 years ago. More factories will relocate to other nations or be shuttered completely. Urban unemployment will spread as will the social dislocation it causes. As the poor national infrastructure further crumbles, transportation costs and productivity will move in opposite directions, with the former increasing.

Population growth is unrelenting and will double in less than 30 years. Given the despondent educational system and the expanding numbers that will pass through it, Nigeria will become a nation with

a very young, vastly ignorant population unequipped with the skills needed for economic progress. Given its population growth rate, Nigeria will reach America's current population before 2040. It, however, may not have the economic wherewithal to adequately care for this enlargement.

The nation's oil and gas revenues may be insufficient by that time. Already there are more African nations discovering oil. Eager to reap the benefits, these nations will be more willing to enter lenient deals with international oil companies. In turn, the international oil companies will find Nigeria less attractive and invest less in its oil production. Already companies contemplate reducing investment in Nigeria. Once the oil production of other nations starts in earnest, oil supply may expand faster than demand. Oil prices may fall in the next few years. Technological advances in alternative energy sources will also be recorded within the next two decades given the amount of funds and attention leading nations are giving this venture. Conceivably by 2030, advanced economies' thirst for Nigerian oil may diminish by a noticeable percentage due to the arrival of additional oil producers and advances in alternative energy technology. The saving grace may be China's and India's expanding oil demands. Yet, should those nations turn more decisively toward alternative energies, the increase in oil demand caused by their economic expansion may not be as large as Nigeria hopes.

Nigeria will be hard pressed to maintain the status quo in a situation where its population has doubled but oil revenues have not kept pace. The agricultural sector will offer no respite. Food and water security will become looming problems. Without adequate investment in agricultural infrastructure, farming will remain a survival contest, pitting subsistence farmer against inclement climate. Desertification will intensify yearly. Already, the droughts that formerly appeared once every several years are now almost annual visitors.

As more people leave dry, infertile land, they migrate to the cities and cease producing food to become mere consumers thereof. Those who do not migrate to cities will relocate to marginal lands already overtaxed by other farmers and herders. Because of the accentuated overuse, these marginal lands will lose their scant fecundity and become barren. This will force another round of migration and the process will repeat incessantly. The contest for land and water will spark violent unrest, as well as spread disease and penury. More food will have to be imported to keep pace with the population increase. This, along with intense importation of manufactured goods, will eat Nigeria's foreign reserves as quickly as they are earned. Given the higher costs of agricultural production worldwide, the higher costs for the additional food imports will worsen Nigeria's structural inflation. Poor people will stagger under the increasing weight. As the years pass, more Nigerians will drop into poverty without hope of subsequent escape.

Nigeria is the most populous nation in Africa. It has the option of becoming the continent's largest success or failure. If it continues along the current policy track, Nigeria's economic topography will deform into one where there is a beautiful and opulent oasis for a tiny minority. The oasis will be fecund, yet grow smaller by the year. Surrounding that oasis will be the parched land where the majority of Nigerians dwell and work hard, only to see their condition grow worse. With the majority of its people consumed by the daily struggle of survival, Nigeria will watch its potential greatness slip away. This is not the prospectus of a leading nation. It is the outline of one that splintered her destiny against the twin pillars of financialism: the greed of power and the power of greed.

A Better Way for Both

The trajectories of Nigeria and America now converge, but not in the best way. For the sake of Nigeria, the rest of Africa, and the Black race, Nigeria must assume the challenge of industrialization on a grand scale. Nigeria can bring to the African continent the formula

for success that once sparked America's greatness and now ignites China's. However, the Nigerian leadership elite has to decide to pursue this path, which requires hard work, discipline, sacrifice, and wise policy. To do so, Nigeria must jettison the financialist model it has adopted. Financialism smothers the vitality of the real economy where jobs and genuine wealth are created. It turns the political economy into a zero-sum mire.

America is the home of financialism and, thus, the country that will experience the full brunt of its flaws. In blindly following this model, the present generation of American leaders has proven inadequate to the nation's challenges. As a group, they have fallen short of what is required to maintain their nation's greatness during a time of global economic transition.

However, history is long suffering in many ways and can be merciful to those who may not deserve mercy. History gives many redemptive chances prior to sounding its final verdict. Both Nigeria and America have time to right themselves before their fates are sealed. America must rekindle the spirit of industry, work, and abhorrence of poverty. Nigeria cannot rekindle what it never had. Its task is to discover these attributes for the first time. Both nations faced steep difficulties. Neither challenge is impossible. However, the clock ticks; eventually, the bell will toll. Whether the tolling will be that of economic prosperity or of misery is one of conscious choice.

Chapter Ten

Defeating Financialism

Oh, ye moneychangers, thy altars shall break and temples crumble. Justice shall salve the afflictions of the poor but that burden which thee hath meted unto others shall be meted unto thee.

America and Nigeria have taken different paths to arrive at similar degeneration. Most citizens of both countries oppose the direction their nation now travels. People correctly sense that continuing in this way begets less opportunity and more poverty. However, powerful elites in both countries profit handsomely from the dismal economic conditions that befall the larger number of people. These elites not only control the levers of power and access to money, they shape conventional wisdom by controlling the media and most other avenues of information. With this power, they seek to define what is possible and acceptable within the political economy. While the humble and poor realize something is amiss, they nonetheless are psychologically and intellectually chained to the very economic orthodoxy that has brought them low. This is not surprising; the orthodoxy is all they have been taught.

They know the game does not play in their favor but have been persuaded not to question things; the current economic structure purports to be the only game that exists. As the rug is being pulled from underfoot, a veil also is being cast over their eyes. There is an oceanic disparity between what they sense is fair and what they have been told is the inevitable harvest of inevitable economic processes.

The first task in overcoming the parasitic economics now at play is to appreciate the gulf between what is and what is possible. People

must change their understanding of the nature of the political economy. It is not some impersonal mechanism functioning according to immutable laws that we must obey or forever be garroted as heretics against the natural order of things. There is no natural order. Immutability has little to do with the political economy. As we have seen, the rich and powerful quickly change the rules when needed to advance their interests. The rest of society must understand what this means. A political economy is a complex organism formed of diverse sectors and subsectors. It is part land, part capital (i.e., means of production), part money, and part government. It is shaped by material objects and intangible ideas just as it also reshapes these objects and ideas. However, it is mostly defined by people and their actions (i.e., the labor and services they provide and the goods and services they consume.) It is comprised of living, breathing, suffering, hoping, and striving human beings, mostly seeking to reduce their scarcity quotients and to live in peace. The economy is made of the rich, the poor, and all between. It has elements of cooperation, as well as those of conflict. The economy is not ruled by an invisible hand; it consists of the composite activity of all of our real hands.

Distilling the political economy to GDP and other figures, such as budget deficits, stock market numbers, interest rates, and exchange rates abets our intellectual manipulation of this complex organism. These things are shorthand devices that help us partially understand what is too big to grasp fully; however, we must not fall into a dangerous reversal of roles where these shorthand instruments, devised to serve us in guiding the economy, become masters that restrict how we structure ourselves economically. The true objective of any national political economy should be the maximum beneficial employment of labor and other assets needed to achieve minimum aggregate scarcity. Sadly, most governments do not view decision making from this perspective. Instead, governments of today seek to balance budgets without questioning whether this tactic accords with full employment of national assets, particularly labor. They

simply assume budget balancing and fiscal austerity will produce a more efficient economy.

Thus, governments and economists who blinker governments with these orthodox assumptions, spend inordinate time manipulating the economy to get the figures right instead of trying to work the figures to get the economy right. Things have been placed on their head. What should be policy tools (e.g., deficit reduction) have been elevated to the status of strategic objectives. Consequently, America, Europe and Nigeria race toward "fiscal consolidation," which is but a euphemism for slicing government social programs for the poor, old, and the humble. Political leaders see consolidation as a holy grail, notwithstanding the preponderant evidence warning this dash to cut government spending will have recessionary effect in the current atmosphere of weak private-sector demand. If economies were feverish and super-animated, a budget-cutting policy would be sensible. In current global conditions, this position tempts an encounter with crisis.

For the true financialist, things could be no better. Money Power detests inflation because inflation undercuts asset values. Conversely, Money Power loves deflation most of the time. Deflation increases the values of one's assets. If one has many assets, it becomes clear why deflation is seen so fondly and inflation is so despised. Thus, big money pushes these policies not because they will lead to fuller employment and less aggregate scarcity but because they will raise this elite's already exalted position. They want you to believe this push to austerity is economic science and is as inevitable as the ways of gravity. Theirs is a lie. Their position is nothing but a political choice to sacrifice better employment for the many so that the few can enlarge their arsenal of financial assets. Remember, the economy has both cooperative and conflictive elements to its nature. What makes things so unique is that big money is suppler than the little man. Financialists have duped the public with false economics for so long that much of the public believes as the financialists want them to believe. Consequently,

people unknowingly cooperate in an effort to undermine their own interests. No greater victory is had than when one can convince an opponent to fight against himself while promoting the adversary's interests. The lessons of economics tend to be intellectually challenging for most of us. Once having understood and accepted a complicated belief system, most humans are prone to defend it, even in the face of evidence that impeaches the system. After having mastered the beliefs and shaping one's life in accordance to them, rejecting them becomes too painful a process for many people. They would rather exist in the bosom of a familiar, accustomed lie than enter into an uncertain truth.

Adherents of financialism deceive society by claiming they practice the highest form of free-market capitalism. In the popular mind, capitalism has no boundaries and recognizes no line it cannot cross. This is a misperception because capitalism, like democracy, has rules to protect the freedom and prosperity it seeks to advance. Free-market capitalism has been caricatured as a jungle where there is neither rule nor mercy. Those adhering to this caricature either seek to make capitalism appear to be an unalloyed evil or seek to distort capitalism so that it justifies anything. In truth, capitalism is the confluence of social, economic, and technological advances, many of which would have been impossible without government and the regulated environment just governance implies. Prudent capitalists never would espouse such extremism as the unbridled free market. To read Adam Smith's *The Wealth of Nations* is not only to explore a book filled with pragmatic insight into the nature of economic prosperity but also to read a text of civic purpose. Although he placed too much faith in the innate morality of the market, Smith understood that prosperity and civic purpose could not long be divorced without both suffering harm.

Those who advocate a hard-fisted economic philosophy where government has no role may claim Smith as their intellectual father, but they have likely never read his work. Smith would likely disown them. Unlike these wayward, yet self-appointed offspring, Smith was

concerned with how a nation creates and maximizes aggregate wealth, not how individuals maximize their financial holdings. Optimizing national wealth is a more complex task and calculation than simply equating it with the aggregate of everyone selfishly pursuing their individual betterment. National wealth cannot be maximized merely by piling together everyone's selfish pursuits any more than an orchestra can make the finest music by all members playing as if each were the featured soloist.

Capitalism is not a license for license. Capitalism is like democracy. It allows for a significant degree of freedom but not so much as to destroy itself. Freedom, whether political or economic, requires the implicit promise that none would do something to abridge the freedom of another. In the sphere of economics, this means that no one can get so powerful as to be able to rewrite the rules in a way that permits him effectively to dictate how others resolve their individual quests against scarcity. In a democracy, rules are constructed to prevent the ambitious from exploiting freedom in a manner that would destroy other people's enjoyment of the political freedoms the ambitious seeks to maximize for himself. Likewise, capitalism has certain tenets by which it is to be conducted so that the freedom it provides is not abused in ways that undermine other people's ability to prosper and reduce their scarcity. In well-managed capitalism, you are allowed to win the race as often as you can. Yet you are prohibited from skewing the race in a manner that only you can win. Unfortunately, the tenets of sound capitalism are more obscure and not thoroughly codified like the political rights and freedoms constituting democracy. The rules of democracy are more widely understood, discussed and affirmed. These rules are, at least, universally acknowledged, if not universally obeyed. The rules of capitalism are easily ignored because most people are unaware of their existence.

Of all economic ideologies, capitalism has proven to be the most able facilitator of long-term prosperity. We do not know what the future holds. A more fecund economic ideology may be enunciated

tomorrow. Whatever happens, we know one thing: financialism is not a beneficent innovation; it is strident danger. Capitalism is based on a triad of capital, labor, and resources working together to produce wealth, mainly through the facture of material goods. These elements also compete against each other to get the best allocation of the new wealth generated. With financialism, the agreement pertaining to increased aggregate wealth is breached. Financialism does not concern itself with growth of material wealth. It is the bold attempt of the financial sector to absorb as much money as possible, regardless if the economy grows or not. Things become a free-for-all where the wealthy and powerful amass and amass, while the poor and weak lose and lose again.

Despite contrary protestations, the financial elite and their political allies have abrogated the fundament of capitalism. The financial sector is no longer subservient to capital. Capital, labor, and resources are no longer devoted to the production of maximum wealth. Today, capital and labor have been reordered to abet the short-term interests of the financial sector. The financial sector sees its primary objective as circulating money between its members to assure their expansion and profit, even if the consequence is to undermine investment in the real economy.

That the elites call what they are doing "capitalism" is a form of identity theft. Capitalism is imperfect and has visited injustice on many. Financialism promises an even more blighted outcome. If the choice is between capitalism and financialism, there is no choice. Yet financialism's practitioners have done a masterly job portraying their book of incantations as the manual of best capitalist practices. Financialism cannot be defeated until its proponents are no longer seen as guardians of capitalism and the free market. Instead, they must be unveiled as extremists whose love for capitalism is so perverse that they are willing to dirk the object of their affection. The public perception must change from seeing this international tribe of moneymen as the architects of collective economic advance to seeing them as the perpetrators of the greatest economic misalignment in

modern history. The light these actors cast on themselves is sufficiently blinding to usher most of us into something akin to an economic dark age. In a sentence, progressive groups and policy institutes need to do a much better job educating the public to the economic woes financialism has wrought.

If this process of economic education can begin, it will promote the change in perspective necessary to bring the American and Nigerian economies closer to the equable balance between the financial and real sectors required for durable wealth creation. For those of us with a more religious bent, recourse to the first verb in the Bible is most instructive. God "*created*," the good book says. This is what man must do. He must use his ingenuity to create things that reduce scarcity—things that he can eat, drink, wear, drive, fly, play, kick, catch, live in, hold, and give. This is the first economic commandment.

America: A Return to Productivity

For all of its challenges, America still stands as the world's largest economy. While never to return to the dominance attained during the immediate post-WWII period, America can retain its position as the top economy for most of this century by making some difficult, yet possible, adjustments. The main challenge is to revivify the productive economy in a way that tames financialism.

NATIONAL INDUSTRIAL POLICY

Critics will decry this concept as a surreptitious imposition of a socialist, centralized process on the free market. This criticism is more ideological than factual. America's initial industrial success was an offspring of national planning. The original architect of the American economy, Alexander Hamilton, would have valued the idea of an industrial policy. He understood industries that are vulnerable, yet important, to a nation's growth and security should benefit from government support. Leaving the lifeline and security of a nation to

the vicissitudes of a merciless market of economic competitors would be a profound abdication of political responsibility. A statesman's sacred duty is not to assure the workings of the market. It is to ensure the welfare of the nation. Consequently, Hamilton engineered a tariff regime that protected America's fledgling textile, shipping, and other industries from foreign competition. The system also promoted competition among domestic players. This gave the nation's frail industrial base space to flourish and grow, while also allowing it to become efficient due to the logic of internal competition. In effect, Hamilton fashioned a national industrial policy that provided the foundation for the nation's impressive growth. This was a rich dividend for a smart piece of government intervention in the economy.

Hamilton is no longer here to explain his accomplishments and the economic philosophy that produced them; thus, financialist canard has replaced the accurate description of his work. Today's America has seen its manufacturing base weakening over four decades. With this dilution, employment in the manufacturing sector has fallen proportionately. This has contributed to wage stagnation for the labor force and to the deterioration of once decent cities. America must revive its manufacturing base by modernizing it and by making sure it retains the capacity to produce items essential to America's economic and national security. No leading nation should allow itself to be in the awkward position of an economic hostage where vital products are manufactured by adversarial states that could conceivably withhold supply of the essential goods if major political differences erupt. There is no such thing as a purely economic decision. Economic activity has geopolitical consequence and vice versa. It is never wise to focus so intently on making money that a nation lets down its guard. It is equally foolish to zealously guard the nation from every conceivable political threat to such an extent that the protective effort impairs helpful international commerce. Balancing the pursuit of gain and the minimization of national security risk is required to sustain long-term greatness. A

wise nation energetically exploits those instances where the two objectives are mutually reinforcing.

Consequently, America needs to take stock of its national security industrial needs. Extant domestic industries vital to this objective must be supported by favorable tax structures, export credits, and other types of assistance that bolster profitability. For those industries that are vital but no longer sufficiently in number within America, government must be even more involved in resurrecting these enterprises within America's borders. Government may have to encourage new investment in these areas by providing investment guarantees, beneficial tax reductions, and substantial government research and development support.

Government must assume a larger role in reshaping America to meet the economic realities of tomorrow. America's infrastructure once led the world. Today, it is the best in its category only if America is counted among Third World nations. A national policy is needed to modernize the country's infrastructural platform because an economy cannot expand beyond the parameters set by its infrastructure. Ports, roads, bridges, and railways need improvement. Internet bandwidth and telecommunications are too weak and need to upgraded. They currently strain rather than bolster the world's largest economy.

America needs to be at its innovative best to usher the world into the economy of tomorrow. The American economy has matured far beyond the point where it can look to traditional starter industries, such as textiles and light manufacturing. It must form a pragmatic partnership between government and the private sector for massive investment in alternative energy industries and nanotechnologies that promise a new wave of industrial processes and the invention of new materials and products. The Chinese government has earmarked several billion dollars toward research in these intrepid technologies. By itself, the American private sector cannot match the scale of this investment. The demands of the

market place prohibit companies from devoting so much of their holdings to such large-scale investments where the returns are uncertain and may await far into the future. Substantial government subvention must fill the void or the economy will fail to keep pace with epochal economic dynamics. Thus far, however, the American government has earmarked only a few million dollars in this effort.

NATIONAL EDUCATIONAL POLICY

America has slipped into the middle ranks of nations regarding educational attainment. The nation needs an educational revolution as monumental as the 19th-century campaign that led to the public school system. The school year needs to be expanded and vacation times shortened. Parents need to be more involved in their children's education by increasing their communication with their children's school and teachers. This will require a marked change in people's orientation.

In the lower grades, more emphasis should be placed on the basics of math and English skills. All children should enjoy basic literacy. Greater emphasis should be placed on hard sciences and math from secondary school onward. Emphasis should shift from test taking and test scores to problem-solving and daily performance. Too many schools train students to do well on standardized tests but do not educate them on how to solve practical problems. America also does not adequately teach its children the values of diligence and sustained excellence. In the world economy now taking shape, the person who knows how to educate himself further and to solve problems will fare much better than the person who only knows how to manipulate answers on an exam.

Tertiary education needs reformation as well. More students need to be channeled toward the sciences and technology. Research grants in these fields should be enhanced. Business schools should focus less on the financial arts and more on the crafts of real-sector production and job creation. Immigration policies must meld with

educational policies. This nation of immigrants should continue to encourage immigration. America has been a haven for bright minds from across the globe. It should continue in this vein. Immigration of exceptional students, scientists, and engineers should be promoted so that they will continue to study, work, and live in America. This will help America retain the advantage in scientific innovation.

FINANCIAL REFORM

Financial reforms enacted after the 2008 financial crisis brought mild improvements to the financial sector, but not enough to stem the drift to larger, more powerful banks that pose systemic risk to the entire economy. First, America must reduce the size of its five or six largest banks. Banks should no longer be too big to fail. Second, the firewall the Glass-Steagall Act had established between investment banking and commercial banking needs to be restored.

Third, both types of banks need to be regulated better to deter the widespread fraudulent practices that led to the 2008 crisis. Fourth, trade in financial derivatives needs to be better regulated. Introduction of new derivative instruments must be limited only to those instruments that increase real-sector activity. It will be impossible to outlaw existing derivatives. Such a measure would cause too much dislocation. However, trade in existing derivatives is too murky, and their valuation is more alchemy than objectivity. This trade also is controlled by a shadowy group who cannot see beyond the orbit of their selfish interests. This group cannot be trusted to work their magic for the good of the economy. Consequently, trade in derivatives should transit from being primarily over the counter to being conducted by regulated, supervised exchanges akin to a stock market. This will make valuation more transparent because the results of purchase transactions will be posted for all to see. It will also help regulators monitor the volume of derivative trades so they can take action restraining speculation before it turns malignant.

Fifth, regulations should be enacted requiring financial houses to more accurately and clearly report their possible liabilities emanating from derivative transactions. This will lessen the incentive for firms to engage in risky investment and claim huge immediate profits from them. Six, to discourage blatant speculation, a financial tax should be imposed on derivative and similar speculative financial transactions. Seven, America needs to return to a tighter regime for consumer credit. Resuscitation of usury laws reducing interest rates and bank fees will help keep the consumer from heavy indebtedness. It will also make consumer lending a bit less profitable for the banks, which means lending to the real sector will become more attractive. Consumer spending based on extra borrowing will lessen. This will accelerate the shift toward a more sustainable rate of consumer spending as a percentage of GDP. The current rate, approximately 70 percent, is too high.

Eight, any banks taking advantage of government subvention or concessionary lending should be required to attain a minimal level of lending to the real sector, particularly small business. Last, and most importantly, America must gradually do away with the harmful artifice that governmental deficit spending cannot be funded directly by government but must go through bond sales to private-sector investors. This contrivance places an unnecessary tax on deficit spending. This mechanism also gives large financial houses a chokehold on the political economy without any compensatory public benefit. In short, the American government must end the practice whereby it is required to borrow its own currency from private banks. This would reduce federal debt, interest rates, and taxation, all of which would spur real economic activity, while reducing the power and influence of the financial sector.

FISCAL REFORM

During periods of slow growth, as now experienced, government should run deficits to strengthen a weak economic recovery. The need for deficit expenditure is more condign during deflationary

periods. Government spending would compensate for the required sag in consumer demand. Government should deploy countercyclical spending that helps recalibrate the balance between the real sector, private consumption, and the financial sector. Given the sluggishness of the economy, government should eschew further budget reductions in the short term. It should continue with the current level of taxes; there also should not be an imminent increase. (Unless government deficit funding is reformed as advocated in the section on financial reform, then tax increases will be mandatory in the long term.) Ideally, government would increase spending to help build infrastructure and provide funding to cash-strapped cities and states, enabling them to escape their debt crises caused by the recession. This help would be of a much smaller magnitude than what government provided banks during the worst of the recession, but it would do more to sustain employment and safeguard essential social services. The increased spending on infrastructure and on the cities and states would keep many local and regional economies from a possible second recession.

Once the recovery has solid traction, America can focus on long-term goals. Social security should remain sacrosanct through it all. Areas that must be reduced over time are defense spending (in incremental phases as America pares down its overseas footprint) and healthcare. Medical costs represent over 17 percent of GDP, and the percentage is climbing. This is the highest among developed economies and is much too high to do any good for the economy's health. Eventually, the healthcare system will have to reform more substantially than the 2009 law mandates; that law has no strong cost control measures and, thus, does not resolve this core challenge. A government healthcare option, tougher price controls, or a universal system must be enacted. America should work to lower overall health costs to within 13 to 15 percent of GDP before the current decade is finished.

POLITICAL REFORM

In the final analysis, political reform is needed. Politicians no longer do a fair job representing the interests of the vast majority of citizens. They spend inordinate time representing Money Power. Policy is skewed to where the financial sector is favored above all others. In the end, the public has to decide it can no longer afford to allow the elite unilaterally to run the nation. America needs a social movement that hearkens to the "New Nationalism" speech by the first President Roosevelt and creates the 21st-century version of the political coalition fashioned by the second President Roosevelt during the New Deal.

Nigeria: The Sowing of Greatness

Nigeria's challenge is shedding financialism in order to build an industrial base. That it never industrialized prior to embracing financialism makes Nigeria's task harder in some aspects than America's but easier in others.

NATIONAL INDUSTRIAL POLICY

American industrial policy must recapture fading glory before it is lost permanently. Nigeria's policy must capture a glory it never had. Nigeria has produced a bevy of economic development plans, the latest being the National Economic Empowerment Development Strategy (NEEDS). None of these documents fit the bill. They are all bureaucratic scribbles, which mean they are labyrinths to anyone with strategic economic vision. These prior attempts list every conceivable economic issue yet prioritize almost nothing. By stating everything, they say nothing. If the nation were capable of simultaneously doing everything in these documents, it would not need a development agenda. Development would have already occurred. The emphasis on poverty reduction is increasingly suspect. Poverty reduction sounds good, but it has no historical basis of success. No nation has achieved prosperity by primarily focusing on

the reduction of poverty. One of history's deeper ironies may be that concentration on poverty reduction is a sure avenue for its retention. Poverty reduction is a noble concept that should be valued, but it is misplaced if used as the cornerstone of economic development policy. If poverty reduction policy becomes the dominant thrust, it will be like the physician treating malaria by running after the mosquito that bit him.

A meaningful national industrial policy must set priorities lying along the critical path of national development. This requires measures protecting Nigeria's few existing industries. Hopefully, steps—such as tax, energy production, and export credits—will insulate these ventures. Additionally, the reduction of duties should be enacted on imported items needed for these industries to operate. If necessary, direct tariff protection must be enacted. The important thing is to halt the erosion of the industrial base. Industries that used to operate profitably in Lagos, Kano and southeastern Nigeria have vanished. If this pursuit runs afoul of World Trade Organization open market dictates, then Nigeria must run afoul. It is much better to protect one's life than one's free trade reputation. Second, Nigeria must do detailed number-crunching to see whether it is profitable to revive factories and industries that recently closed because of high operating costs. Those enterprises that would be competitive with relatively small assistance should be given government assistance, ranging from guaranteed loans and tax holidays to power-generation subsidies.

The single most important aspect of a national industrial policy is the increase in electrical power generation to reduce the costs of industrial production. In Nigeria, increased power generation is not primarily a technical or logistical issue. Other less-endowed nations have accomplished this feat. The technical knowledge is not obscure. It is relatively easy to obtain. The challenge for Nigeria is political. This dim condition has persisted for decades. Important and powerful constituencies, formed as a result of the substandard electrical power network, heavily profit from the continuation of this

condition. Generator and diesel fuel importers will be hurt if electricity production were on better footing. Additionally, companies enjoying monopolies in certain industries will not like to see a reduction in the costs of entry into their exclusive domain that lowered power costs will bring. Lower power costs will increase economic activity and bring more competition in areas where there is little. To resolve the dilemma of electricity production, the federal government must either establish a policy of cooptation or one of confronting these vested interests.

This is in addition to deciding whether to privatize the system or parts of it. Privatization must be enacted with adequate labor and environmental protection. Furthermore, the nation must fill the rest of its infrastructural gaps. Roadways, rails, and ports are abysmal. The industrial plan must provide for the creation of an efficient national highway system. The creation of a railroad network connecting major cities and the expansion of port facilities enabling faster, less expensive clearance of cargo will fillip economic development.

In addition to protecting existing manufacturing firms, Nigeria must focus on new ventures in light manufacturing. Textile and garment production and other processes that can be worked by a relatively low-skilled labor force are vital. Government must prudently identify industries in which it wants Nigeria to be competitive and then devise a detailed plan for the elevation of each such preferred industry. Nigeria cannot rely on the operation of the free market to move the nation into this position. Established companies of other nations already have large competitive advantages that local companies cannot overcome by their own devices. Moreover, China and other nations provide significant government support to their preferred companies. If the Nigerian government does not match or exceed this level of cooperation, its domestic industries cannot recover lost ground.

Nigeria must also seek foreign investment; the foreign direct investment needed is the type that produces jobs for Nigerians. The extent that foreign enterprises import their own labor, particularly unskilled labor, is the extent these companies undermine the utility of their activities to Nigeria's growth. In fact, the status of such self-sustaining companies is but a half-step removed from the goods being produced outside Nigeria. The government must get actively involved in identifying the precise types of foreign direct investment the nation requires. This goes beyond promulgating rules that make Nigeria "investment friendly." It means actively identifying specific investors, then negotiating detailed agreements with these investors. In this way, the investors can reasonably see a profit in the potential investment; more importantly, Nigeria can ensure the enhanced employment, increased production of goods, and other benefits that it seeks. However, Nigeria should eschew entering into an economic partnership agreement (EPA) with the European Union (EU). Although claiming to promote foreign investment, the ultimate purpose of the EPA is to open Nigeria to importation of higher levels of European finished goods. While good for Europe's recovery, this will retard Nigeria's industrialization.

Nigeria must shift from subsistence to commercial farming to the extent possible. This is particularly required in northern Nigeria. Every successful nation is based on an implicit, complementary economic bargain between the various sections of that nation. Part of the internal Nigerian bargain must be that the North will be the nation's food basket. Nigeria also needs to return to the status of being a net exporter of agricultural products, including processed agricultural goods. This is an imperative of national security—being a net food exporter is a major way to protect against depletion of foreign reserves and is an avenue to increase the country's influence with nations importing Nigerian goods. To moderate the vicissitudes of the dry (drought) and rainy (flood) seasons, Nigeria needs to enhance medium and small-scale irrigation, as well as improve its water catchment systems. It also needs an ambitious plan to

cultivate and construct wind barriers across the northernmost tier of the nation to slow desertification and protect vanishing top soil.

As part of its agricultural policy, Nigeria should establish commodity exchange boards that guarantee minimum prices for farm produce. This mechanism will give farmers a stable income by assuring their products will be purchased at a guaranteed price. Farming will become more attractive because income would be less erratic. This will help reduce the troublesome migration of Nigeria's productive rural population to urban centers.

NATIONAL EDUCATIONAL POLICY

Nigeria's educational sector is woeful. Thirty years ago, the educational system was commendable and held great promise. Many of its schools offered solid educations, particularly in the liberal arts. Now, the system has decomposed to the point where students today are less educated than their parents. The education now received is inadequate to prepare students for the challenges of yesterday, let alone those of tomorrow. This educational malaise has two aspects. First, what is being taught is taught poorly. Second, what is being taught does not fit the reality of Nigeria's economy. Nigeria's educational system emulates a system meant for an industrial or even a post-industrial nation. Nigeria has tried to graft the educational formulas of England and America onto the Nigerian tree. For example, Nigeria produces legions of political science, law, and business administration graduates. Yet, the economy has few jobs for them. There can only be a handful of new jobs for law students since the economy is not expanding quickly enough to produce the number of corporations and the volume of business needed to engage a large corps of young lawyers annually. Business students receive instruction about the workings of the corporate world and not about starting and managing small firms. However, openings in the corporate world are few. Political science graduates face worse prospects. The selection of this discipline virtually consigns a student to unemployment.

Nigeria needs to remodel its educational system to mirror economic reality. More emphasis should be placed on technical skills and education. Ministries of Education and Labour should form a permanent committee with the organized private sector to identify hiring trends and ascertain the skill sets the private sector will need five to ten years in the future. Government and the private sector should work together to fashion the curricula appropriate to cultivating the needed future skills.

Regarding primary and secondary education, poverty bars too many young people from regular attendance. They are too busy helping their families survive. Attending school becomes a distant, almost alien luxury in their abridged circumstance. If things do not change, these young people will be fettered in perpetual poverty. Without an education, they have little hope of breaking penury's chains. The free market cannot help them. Government should dedicate funds for school meals for primary and secondary school children. If government provides at least one meal per day, the impact on student attendance, on academic performance, and on our economy will be salutary. These modest offerings to Nigeria's younger generation will promote nutritional health and take many youths, known as "almajeris" off the streets by attracting them to school. Farming and small-scale industry also will be encouraged, creating tens of thousands of jobs in every part of the country.

FINANCIAL SECTOR REFORM

Nigeria has moved farther along the path of financial reform than America. For example, it has erected a stronger wall separating commercial and investment banking. Still, Nigeria's banks are too big for the economy. Instead of fueling the real economy, the bloated banking sector, if left to its own designs, will siphon funds from the real economy. Ideally, banks should be reduced in size. However, this is politically untenable, given the costs and history associated with the artificial enlargement of the firms. The next best thing is to institute a tight regulatory framework, deterring the oversized banks

from engaging in excessive, incestuous speculation within the financial system. Second, Nigeria must wisely manage any significant influx of hot money from foreign investors looking for higher rates of return than currently possible in their home countries. Nigeria should establish a regime of capital controls that regulate both the inflow and outtake of funds from foreign investments.

Third, the Central Bank must do better monitoring aggregate debt within the system. Once debt approaches a certain level, the Bank and other regulators must take steps to tap down the debt total. Fourth, Nigeria should prohibit the introduction of derivative investment instruments. These vehicles have been proven to cause volatility in financial markets without enhancing genuine wealth creation. Fifth, margin loans, the big culprit in the 2008 crisis in Nigeria, must be monitored better and placed under a strict maximum aggregate cap for the overall financial sector and individual caps for each financial institution. Nigeria, likewise, should institute a transactional tax on margin lending and other forms of financial speculation. Sixth, all banks participating in AMCON should be required to make a minimum level of loans to those real-sector industries given preference under the national industrial policy.

Seventh, extant interest rates are prohibitive for long-term investment in the real sector. Government should subsidize interest payments or afford banks tax credits to the extent they lend to preferred industries at lower rates. Eighth, government should use a more nuanced view toward currency valuation. Nigeria has an adverse view to any currency devaluation. This is understandable since the real economy is too sluggish and constrained by high production costs to take proportionate benefit, via export promotion, should there be a currency devaluation. By reducing the real costs of Nigerian goods in the international market, devaluation should increase exports. However, the languid condition of the nation's manufacturing industry weakens the nexus linking devaluation and higher exports. Under current conditions,

devaluation will only result in higher prices for imported goods without a commensurate upswing in exports. To perform devaluation in this circumstance is to consume hemlock. Once Nigerian industry becomes more nimble and adaptive, the Central Bank can more subtly gauge the most appropriate value for the currency in order to strike the right balance between price stability, on one hand, and the maximization of production, employment, and exports, on the other hand.

The financial sector would have the Central Bank battle inflation and little else. However, much of Nigeria's inflation is structural. This structural inflation is immune to Central Bank policy, no matter how well-intentioned. Fighting this aspect of inflation is futile, if not counterproductive. For instance, inclement weather patterns, increased meat consumption in fast growing Asian economies, and a worldwide decrease in the utilization of arable land have placed a ceiling on global food supplies, increasing the costs of most food items, including staple grains. Because Nigeria imports significant amounts of food and demand is fairly inelastic, the nation must pay the higher prices, incurring inflation. The Central Bank can do little to tame this. The only thing that will lessen this brand of inflation is for Nigeria to produce more food. Trying too hard to reduce inflation imported with each bag of rice or wheat will not reduce the costs of the high priced imports. However, this tack will heap recessionary pressure on elements of the domestic economy susceptible to the effects of contractive Central Bank policy.

Last, Nigeria must also revise government financing. For all payments government makes in naira, it is unnecessary for government to finance its deficit through borrowing since government issues the currency. This financing mechanism is a contrivance to provide government subsidization of the financial sector. At this hour of the Nigerian day, this mechanism constitutes an obstacle in the national journey toward development. This point raises a profound concern. Most of the measures suggested in this entry on the financial sector are merely reforms that mitigate, but

not defeat, the worst aspects of financialism. The Nigerian financial system has a larger problem; it must redefine its role. The current financial model is based on the Anglo-American financial model. It is a system intended for a nation with a large, diversified economy. Even in those nations, the workings of this financial model went awry. If the financialist model distorted economies with much stronger real sectors, Nigeria's frail real economy has little hope to develop under the mean aegis of financialism. The option of genuinely interest-free public banking must be explored. However, that is a topic for a subsequent book.

FISCAL REFORM

Government must initiate more expenditures for infrastructural projects that have a positive multiplier effect. Nigeria's ports, roads, and railway systems are below second rate. Their poor condition lowers productivity, increases costs, and causes fatal accidents. Efforts, like the special fund for the textile industry and other sectors identified in the industrial plan, need to be expanded. The processes used to develop and implement government budgets must be rationalized and made transparent. There is too much leakage in government budgets; government spends too much money running itself.

To take better care of its older population, government must also overhaul its pension and social security regime. At present, the system profits only the managers of the various funds and not the average person. In most instances, the real value of people's money is reduced by investing in the extant plans. The nation should explore the establishment of a social security system wherein people's contributions will be primarily or exclusively invested in a special type of inflation-protected government bonds.

LAND TENURE REFORM

Land tenure and conveyance in Nigeria are too confusing and costly. Land conveyance is too much a political transaction. The current system inhibits conveyance and distorts land allocation in favor of the well-connected. Land is not effectively distributed and allocated on the most productive basis. This retards development of a vibrant housing industry encompassing both high-end housing and more affordable dwellings. Suppression of the housing industry has a compound negative effect because the other businesses and trades fueled by construction activity remain suppressed.

Nigeria must move forward with land reform in order to rationalize real estate ownership. A system that reduces the multitude of competing claimants and nebulous land titles is required for real estate to play the positive role in economic development that it should. Conveyance of land must be made easier, legally definitive, and less costly. This development will provide the average citizen better opportunity to own land and a home. If the system remains as is, affluent people with political connections will hoard too much land. This will artificially inflate land prices, encouraging rent-seeking and speculation. As a result, land and rent costs for the productive sector will be higher than warranted; the higher prices will undermine the real sector's competitive position.

MALARIA

Nothing can be said about Nigeria's economic growth and wealth creation without discussing how malaria saps the strength of citizen and country alike. Conservative estimates indicate malaria may clip two to five percent from almost every sub-Sahara nation's GDP. A nation's potential GDP growth could be halved in less than two decades. This represents billions of dollars destroyed by sickness. Because of changes in living conditions, such as air conditioning, the affluent do not worry about malaria as they once did. However, the poor still face this scourge. Malaria has become a matter of social

justice, as well as of health and economic development. Despite the heavy toll malaria takes, Africa does not have a well-funded malarial research center. Nigeria and Africa rely on western nations to lead the research fight against malaria. Nigeria should join other African nations to fund and establish a groundbreaking African malaria institute.

ECOWAS AND SUBREGIONAL INTEGRATION

The Economic Community of West African States (ECOWAS) should focus on facilitation of trade within the Community, as well as on joint industrial and infrastructural projects. Movement toward capital market integration should be placed on a slower track. Currency integration should be eschewed. Monetary union has proven combustible in Europe and will do the same in West Africa, given the fiscal disparities among ECOWAS member states. Currency integration is a disaster in waiting unless accompanied by fiscal union between the states or the creation of a powerful, supra-national West African central bank.

Move Quickly

The hold of financialists surpasses that which the Holy See once enjoyed over the kingdoms of medieval Europe. Never in the history of man has an elite without direct recourse to military power held sway over so many nations.

Financialism has subdued both weak and strong nations. It has ensnared democracies, as well as dictators. The power of money has become supreme because it is the power of an illusion. Few things are as enticing as a well-performed trick. For most people and nations, money is now wealth instead of the gate to it. Yet, this is not how things should be. Money should be considered the representation of wealth and of wealth's more subjective cousin, value. It is akin to a property deed. We consider the deed not

because of anything intrinsic to it but for what it represents. It represents not only the piece of land but also the right to own the property. However, no one would be foolhardy enough to construct a house or attempt to plant corn on the deed.

Over the past 50 years, at first subtly, then gaining frightening momentum during the last one score years, money changed its role in the economy. This change was sponsored largely by those who controlled the bulk of the world's money. They endorsed this material alteration in the economy solely because it profited them more than it would profit others. As if by operant conditioning brought about by the everyday and efficient recourse to money as a means of exchange, we came to promote money to the status of being the end in itself.

To rectify this malign development, we must realize the current structure of the world economic and financial systems is no more a function of objective social science than is one's taste in music or food. Based on their own selfish designs, the global moneyed elite decided we should be as we currently are. For us to steer a new course, to decide another route, is not to transgress the laws of God or nature. It is but the acknowledgement that the current system produces more injustice than justice. We can erect a more humane political economy that serves the interests of the humble as well as those of the mighty. Currently, things have gone too far toward elitism. Compared to the level of technological attainment man has reached, too many people still feel the constant bite of poverty. Sadly, the global political economy is modern in appearance but medieval in spirit. It seeks to make serfs of the many. Reducing the full story to one thought, that thought would be: the financial houses now wield so much power that they have become emboldened to kill the system that birthed them.

To return to the path of progress, we do not need new wisdom. We need to apply old wisdom to the new day. We need to recalibrate the balance between the financial and real sectors of the economy.

We must return money to its proper function as a facilitator of wealth creation. For America and Nigeria, time is of the essence in making this fundamental change. Many years have already been wasted in America by leaders telling people that theirs is the greatest nation on earth, while the beams of the once sturdy house rot from financialism's infestation. The same is true with Nigerian leaders telling their fellow citizens their nation is great although most Nigerians languish in obvious poverty.

If both nations do not take the path of reform soon, they may forever foreclose themselves to the possibility of turning their inaccurate claims of greatness into something resembling the truth.

Epilogue

The worst of the visible manifestations of the 2008 financial crisis slowly drift from us. The depression that would have been was sidestepped by government intervention in an unregulated financial market turned hircine by speculative delight. Future historians will look back in wonderment on this era. To them, the obvious causes of the cataclysm will be the reckless banking system and the ideology that legitimized the misconduct. Much of current financial practice was illegal years ago; it will likely be deemed such in the future. Yet, that future will likely come only after a subsequent financial storm returns us to the brink of collapse. As of today, however, it appears that we have learned nothing except the wrong lessons from our near disaster. Having dodged the bullet, we discount the mortal danger it presented. Having soothed the lion once, we think we can replicate the feat the next time the beast roars. Far from teaching the merits of prudent financial behavior, this encounter with recession has too many of us believing we will always master the worst. Instead of modifying financialism, the years since the 2008 recession have confirmed its dominance in the political economy.

We have avoided the collapse of the international financial system but have not repaired those aspects of the system that placed us in the maw of disaster. The system remains endangered. For the overall global economy, the next few years will likely be ones of slow, tepid recovery. Many nations, particularly heavily indebted European countries, will court recession and insolvency because these governments wrongfully pursue fiscal consolidation (budget cutting) when wisdom dictates the opposite. This decade will be a lost one for several countries. The impositions of financialism will empty their coffers and pull their social fabric to the point of

imminent rupture. Yet, this will be a period of enormous profit for the main financial actors. It will be profit taking more than profit making since the money they acquire will have little connection with making anything of real value. They will make their money by taking it from weaker actors in the political economy. This profit taking will distract many from the stagnation of the productive sector. The financialists will proclaim that signs of growth of their portfolios presage coming growth of the productive sector. We all will wait for the second foot to drop. It will never happen because financialism stands on one leg. The profits registered by the financial sector will also mask volatility in the financial sector, but for only a brief time. After a few years, if not less, contradictions in the financial system will cause serial collisions between the interests of the financial houses and the legion of people losing their standard of living because of the austere conditions imposed on the real economy by the financial sector. One vulnerable nation after another will fall prey to the hyena appetites of financial profiteers.

As financialists squeeze hard to extract the last coin from debtor nations, some countries will be unable to withstand the strain. There will be defaults, and this will cause the price of borrowing to rise. There will likely be currency wars. Nations will engage in competitive currency devaluation to improve their trade balances and export sectors. Meanwhile, leading emerging economies will move to supplant the dollar as the global reserve currency. Large-scale institutional investors will pour money into many emerging nations to win quick profits. These investors will suddenly repatriate the funds, causing dislocation and unwanted devaluation in the economies that opened their doors to this rollercoaster investment. We may well suffer another significant downturn before the close of the decade, a downturn that is completely avoidable if we have the wisdom to reject financialism's dictates.

We have reached the end of this book. If you have gotten from reading it, a fraction of what we gained by writing it, then we have accomplished our mission. As we stated at the onset, this book does

not follow convention in style or substance. It is a mixture of politics, economics, prose, and bits of poetry. It is not an academic treatise. Through this book, we attempted to write something that talks to the reader's humanity, both heart and mind. We tried to write about the living in a way that is alive. We pray that we have succeeded, at least, in part.

This book is but a humble attempt to appeal to those aspects in us that hearken to creativity and justice. It is important for people to understand something historic is afoot. A different, meaner way of ordering the political economy is upon us. If it cements its grip, financialism will take away the best futures from most of us. The rich and powerful will do well; they always do. The middle class and poor will struggle more than they have in nearly a century. Our world will become more competitive and conflictive but less creative. It will roll over people more than it spins for them. There will be change but no progress. Old things may be cast aside only to be replaced by inimical, new ones. We have come too close to the door of progress to allow financialism to redirect us to the portal of destitution.

Our political economy can never be perfect, but that admission provides financialism no easement to make the world more flawed. We cling to the belief that man can attain higher levels of economic cooperation in order to increase wealth and decrease scarcity. For this reason, we feel compelled to raise the alarm about financialism and its attempt to reshape us in its harsh image. We are in a fight pitting the imperfect against the vile. The former has civil purpose. The latter has no purpose save the incessant feeding of its own selfishness. There really is no choice in deciding which side to join. We must do all we can to uphold the imperfection of man's collaborative endeavors against the perfection of his selfish designs.

The End

P.S. The love of money is truly the root of evil.

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ISBN 978-0-9702856-7-6

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